



# Weekly Export Risk Outlook



EULER HERMES

19 May 2010

## In the Headlines

FIGURE OF THE WEEK: **1.22** > EUR/USD

### ▶ Euro-zone and EU: Q1 growth

Euro-zone real GDP increased, but only slightly, during Q1 2010 according to first estimates published last week, posting 0.2% growth qtr/qtr (0% in previous qtr). The EU27 also grew by 0.2% (+0.1% Q4 2009). Both were poor performances, driven mainly by exports while investment and consumption remained weak. GDP accelerated more strongly in Italy (+0.5%), but modestly in Spain (+0.1%)—now technically out of recession—and Belgium (+0.1%). The qtr/qtr pace was unchanged in Germany (+0.2%) and lost momentum in France (+0.1% after +0.5%), UK and Netherlands (both +0.2% after +0.4%). On a yr/yr basis, Q1 still appears weak, albeit better than the Q4 2009 performance, as GDP increased only by +0.5% in EMU and 0.3% in the EU27, compared with +2.5% for the US and +11.9% for China.

### ▶ US: More strong data

U.S. economic data indicates a rapidly recovering economy. Strong retail sales in the past two months resulted in an 8.8% y/y gain in April. Industrial production rose for the 9<sup>th</sup> time in 10 months to a 5.2% gain y/y, with manufacturing up 6.5% y/y. Housing starts jumped 5.8% in April, resulting in a spectacular 41% y/y growth rate. Permits plummeted 11.5%, but this was probably the result of homebuilders pausing to let the home-buying tax incentive expire (y/y permits are still up 16%). The housing market index rose to its highest level in 2.5 years. Producer prices fell 0.1% in April—while the headline is rising at a 5.4% y/y rate, the core is only up 1.0%, indicating little inflationary pressure.

### ▶ Thailand: Political protests

Today the army stormed the barricaded encampment of the red-shirt anti-government protesters in central Bangkok and several protest leaders, according to reports, have surrendered. The operation followed six days of clashes—triggered by army attempts to seal off the camp—which culminated in the worst political violence in nearly two decades. Although some hard-line protesters reportedly have not yet given up fighting, this looks likely to be the end of the siege and the paralysis of parts of the commercial district in the capital Bangkok. However, there is no obvious resolution to the underlying problem—the entrenched political struggle between the two sides of the now deeply divided society. Expect continued political instability.

### ▶ Brazil: Policy tightening

With consensus growth expectations of 6.3%—supported by recent strong data on retail sales (March up 1.6% mo/mo) and employment—and inflation consistently above target, the government last week announced public spending cuts of Rs10bn. Taken together with measures in March this is expected to reduce spending by 1% of GDP this year. Expect further policy tightening to head off overheating, but probably focused more on monetary policy—the policy interest rate was raised for the first time since late 2008 in April this year—as fiscal tightening is likely to be tempered by elections in October. In the presidential election recent polls Dilma Rousseff, the government candidate, backed by incumbent president, Lula da Silva, has edged ahead of her closest rival Jose Serra.

A company of Allianz 

**These assessments are, as always, subject to the disclaimer provided below.**

**Cautionary Note Regarding Forward-Looking Statements:** Certain of the statements contained herein may be statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words 'may, will, should, expects, plans, intends, anticipates, believes, estimates, predicts, potential, or continue' and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Allianz SE's core business and core markets, (ii) performance of financial markets, including emerging markets, (iii) the frequency and severity of insured loss events, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) the extent of credit defaults (vii) interest rate levels, (viii) currency exchange rates including the Euro-U.S. Dollar exchange rate, (ix) changing levels of competition, (x) changes in laws and regulations, including monetary convergence and the European Monetary Union, (xi) changes in the policies of central banks and/or foreign governments, (xii) the impact of acquisitions, including related integration issues, (xiii) reorganization measures and (xiv) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences. The matters discussed herein may also involve risks and uncertainties described from time to time in Allianz SE's filings with the U.S. Securities and Exchange Commission. The Group assumes no obligation to update any forward-looking information contained herein.



### ▶ Mediterranean countries & Africa – *Equatorial Guinea: Natural gas reserves revised upwards*

According to a government announcement last week natural gas reserves are now 4.5 trillion cubic feet, (against 1.3 tcf in a previous projection) and the country aims to become a regional gas export hub. A tripling of gas reserves provides scope for construction of a second LNG train and a second methanol plant, subject to interest from foreign investors. The revision is timely, given that oil reserves from the country's ageing fields are dwindling—annual crude oil output appears to have peaked at 373,000 barrels per day in 2005 and is currently around 318,000bpd. However, increased investments in the gas sector are unlikely to show up in GDP data in the ST, so expect economic growth of only 1-3% in 2010 and around 5% in 2011.



### ▶ Americas – *Dominican Republic: Election gains*

President Leonel Fernandez' ruling PLD will have an increased majority in congress after a strong showing in mid-term elections last weekend. The PLD has 31 of 32 seats in the Senate and, though official results are not yet available, is expected to increase the number in the lower house from 96 to above 100 (of 178). The PLD also won 90 of 155 municipalities. The PRD, the main opposition, were the biggest losers. The results are a strong endorsement of President Fernandez' policies in the global crisis—growth was 3.5% in 2009—but could also now facilitate more effective structural reform implementation and pave the way for a PLD candidate win in the 2012 presidential election. (President Fernandez is not allowed to stand for consecutive terms.)



### ▶ Asia-Pacific – *Malaysia: Double digit growth*

Q1 real GDP growth accelerated to 10.1% yr/yr from 4.4% in Q4 2009, driven by domestic demand and some base effects. Private consumption increased by 5.1%, government spending by 6.3% and investment by 5.4% while the change in inventories boosted total domestic demand growth to 16.2%. Total exports expanded by 19.3% while imports surged by 27.5%. On the supply side, manufacturing led the way (up 16.9%) but output grew also strongly in construction (8.7%) and services (8.5%). Even though inflation has remained subdued at an average 1.3% yr/yr in Q1, the central bank raised its key policy interest rate by 25 bps to 2.5% last week, aimed at keeping domestic demand in check. Expect 6%+ growth in calendar 2010.



### ▶ Europe – *Romania: Agreement on Stand-by review*

The economy remains in recession as seasonally-adjusted real GDP shrank by 0.3% qtr/qtr in Q1 after contracting by 1.5% in Q4 2009. On a yr/yr basis, the pace of decline eased to 2.6% from 6.6% in Q4. Last week, the authorities and IMF staff agreed on the fourth review of the Stand-By Arrangement, including a revision of the 2010 fiscal deficit target to 6.8% of GDP from 5.9% previously. Nonetheless, achieving the new target requires further action by the government, which has opted to reduce public sector wages by 25% and pensions and social assistance by 15% from June. Expect these cuts—a pre-requisite for the next IMF disbursement of EUR0.9bn—to hit consumer spending and growth which is likely to be flat in 2010.

## Worth knowing

### ▶ Iran

The US has announced a new set of draft sanctions, which have the support of the key permanent members of the UN Security Council, notwithstanding the agreement on nuclear fuel between Iran, Turkey and Brazil announced the day before.

### ▶ Other Q1 Real GDP

Hong Kong: Up 8.2% yr/yr and 2.4% qtr/qtr (seasonally adjusted), the fourth consecutive quarterly expansion.

Czech Republic: Up 1.2% yr/yr and 0.2% qtr/qtr (advance estimates; seasonally and working-day adjusted).

Chile: Up 1.1% yr/yr, down 1.5% qtr/qtr (seasonally adjusted), reflects the impact of February's earthquake)

For more information, visit  
[www.eulerhermes.com](http://www.eulerhermes.com)

A company of Allianz 

**These assessments are, as always, subject to the disclaimer provided below.**

**Cautionary Note Regarding Forward-Looking Statements:** Certain of the statements contained herein may be statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words 'may, will, should, expects, plans, intends, anticipates, believes, estimates, predicts, potential, or continue' and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Allianz SE's core business and core markets, (ii) performance of financial markets, including emerging markets, (iii) the frequency and severity of insured loss events, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) the extent of credit defaults (vii) interest rate levels, (viii) currency exchange rates including the Euro-U.S. Dollar exchange rate, (ix) changing levels of competition, (x) changes in laws and regulations, including monetary convergence and the European Monetary Union, (xi) changes in the policies of central banks and/or foreign governments, (xii) the impact of acquisitions, including related integration issues, (xiii) reorganization measures and (xiv) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences. The matters discussed herein may also involve risks and uncertainties described from time to time in Allianz SE's filings with the U.S. Securities and Exchange Commission. The Group assumes no obligation to update any forward-looking information contained herein.