



Weekly Export Risk Outlook



EULER HERMES

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In the Headlines

FIGURE OF THE WEEK: **8.6%** > INDIA'S Q1 2010 GDP GROWTH

▶ India: Strong expansion

In calendar Q1, real GDP growth was 8.6% yr/yr, up from 6.5% in Q4 2009. Poor monsoon rains resulted in a weak contribution from agriculture (0.7% yr/yr increase) but otherwise the expansion was broad-based, with the main drivers being manufacturing (16.3% yr/yr increase) and services. With upward revisions to previous quarters, the full FY2009/10 (April-March) GDP expansion was a higher-than-projected 7.4%, compared with 6.7% in 2008/09. The outlook appears robust, even with some negative contagion from a weak Eurozone and a staged withdrawal of recent stimulatory policies. Assuming a rebound in agriculture, expect annual GDP growth of around 8-9% in both 2010 and FY2010/11. However, with inflationary pressures still feeding through, expect the Reserve Bank of India to increase key interest rates at its next meeting in July, if not before.

▶ Czech Republic: Post-election uncertainties

Voters expressed their discontent with established parties in parliamentary elections last weekend. The Social Democrats came in first with 22.1% of the vote (down from 32.3% in 2006), followed by the ODS with 20.2% (35.4% in 2006). The KDU-CSL and the Green Party, which formed a centre-right coalition government with the ODS in 2007-2009, failed to return to government. The beneficiaries were two new centre-right parties: TOP09 (16.7%) and Public Affairs (10.9%). Coalition talks between the three centre-right parties, which together gained 118 out of 200 parliamentary seats, are underway and provide scope for a reform-minded government, although as the two new parties are relatively unknown quantities there are some uncertainties.

▶ Colombia: First round gain

Against expectations, conservative candidate Juan Manuel Santos (Partido de la U), a former defence minister and the chosen successor of outgoing President Alvaro Uribe, has a strong lead after the first round of the elections, with 46.6% of the vote. Nonetheless, a second round run-off will be needed in which his opponent will be Antanas Mockus (Green Party, centrist). Mockus took just 21.5% of the vote in the first round, however, despite running level—or even being ahead—in most opinion polls before the election. Traditional parties finished a long way behind. It looks as though expected continuation of the strong security measures under Uribe may have swung the vote towards Santos, particularly in rural areas on a generally high turn out, and he clearly has the momentum going into the run-off.

▶ United Arab Emirates: More debt concerns

The debt problems of Dubai World and its property subsidiary Nakheel have receded with an agreed re-profiling of obligations. However, corporate difficulties in Dubai are still evident. Dubai Holding—owned by the emirate's ruler, Sheikh Mohammed bin Rashid al-Maktoum—reported losses from its commercial arm of USD6.4bn for 2009. These relate principally to real estate sector issues. As a result, a rollover (on commercial terms) of an upcoming loan repayment of USD555mn is being negotiated. Additionally, other parts of Dubai Holding are negotiating with creditors—DIC has asked for a three-month delay in the repayment of a USD1.25bn syndicated loan. It seems unlikely that the real estate market will improve significantly in the ST, so expect pressures from this sector to continue.

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► **Mediterranean countries & Africa – *South Africa: Growth***

Real GDP expanded by 4.6% qtr/qtr in Q1, compared with 3.2% in Q4 2009 and only 0.9% in Q3 2009, with growth evident across the board, although still modest in some sectors. Meanwhile, household incomes have yet to recover fully from 2009, with employment levels still contracting. In addition, fixed investment remains subdued, with residential building activity yet to bottom out, non-residential building activity still falling and construction experiencing weak project growth. Construction (pre-World Cup) and government spending (stimulatory policies) were driving forces that are likely to be subdued going forward but recent good rains suggest a stronger contribution from agriculture and there will be expenditure gains from the forthcoming (June-July) World Cup, so expect 3-3.5% GDP growth in 2010 overall, after contraction of 1.8% last year.



► **Americas – *Peru: Vigorous upturn***

Real GDP was up 6% yr/yr in Q1 (3.4% Q4 2009) the highest quarterly growth since 2008 and broadly in line with expectations. The recovery has been fuelled by stronger commodity prices, underpinned by stimulus through fiscal and monetary policies. Construction led the way in Q1, up 16.8% yr/yr, but manufacturing growth was also positive (+7.3%) for the first time since Q4 2008. On the demand side, both private investment and consumer spending turned up, although public consumption also remained strong. In response to the vigorous upturn, which could produce GDP growth of 5-6% this year—provided commodity prices do not fall sharply—the central bank began to raise policy interest rates in early May, from 1.25% to 1.5%. The external balance remains strong and public debt is relatively low.



► **Asia-Pacific – *Thailand: Uncertain outlook***

After the army's breakup two weeks ago of the siege of parts of Bangkok's commercial district by anti-government protesters—which resulted in heavy violence—order appears to have been restored in the capital and most businesses have resumed operations, although the state of emergency has not been lifted. PM Abhisit today survived a no-confidence vote over the handling of the crisis. Q1 real GDP grew 3.8% qtr/qtr (seasonally-adjusted) while base effects lifted the yr/yr change to 12%. GDP is likely to contract qtr/qtr in Q2 as a result of the impact of the unrest and both the political and economic outlooks are highly uncertain for H2. Assuming that political instability fades back to the level of 2006-2009, when the economy still grew at a reasonable pace, GDP may expand by around 4% in calendar 2010.



► **Europe – *Slovenia: Still contracting***

The economy remains in recession as seasonally-adjusted real GDP contracted by 0.5% qtr/qtr in Q1 after falling by 0.3% in Q4 2009. On a yr/yr basis, the pace of decline eased from 5.5% in Q4 to 1.2% in Q1. Household spending was flat and government spending grew 1.8% yr/yr, but a fall of 8.2% in investment pulled down domestic demand by 1.6%. External demand made a positive contribution of 0.5pp as export growth (4.5%) outpaced import growth (3.8%). Unemployment increased from 6.4% in Q4 to 7.1% in Q1, so expect consumer spending to remain weak and marginal GDP growth of only around 0.5% in calendar 2010. Consumer price inflation eased slightly to 2.1% yr/yr in May from 2.3% in April but was higher than the average 1.4% in Q1.

Worth knowing

► **US**

Recent economic data continue to suggest a robust recovery—GDP, consumer confidence, factory orders, ISM indexes, construction spending, home sales, income etc. Friday's employment report is also likely to be strong, showing job growth for the fifth straight month, but expect unemployment to remain at 9.7%-9.9%.

► **Commodities**

Oil: Benchmark Brent USD72.7/barrel (year to date average USD78.9/b); **Gold:** USD1227/oz (ytd average USD1141/oz).

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