



Weekly Export Risk Outlook



EULER HERMES

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In the Headlines

FIGURE OF THE WEEK: **10%** > Q1 UNEMPLOYMENT RATE IN THE EURO-ZONE

▶ Euro-zone: Labour market report

Following six consecutive quarters of contraction, seasonally-adjusted Euro-zone employment was stable in Q1, compared with Q4 2009. This resulted mainly from stabilisation in Germany, France, Spain, Belgium and Portugal but also reflected an increase in the number of people employed in some other countries—Italy (+0.4% qtr/qtr), Austria (+0.1%) and Finland (+0.5%)—with Greece as a notable exception. Overall within the zone, financial services, business activities and other services recorded increases, but the trend was still negative in manufacturing (-1%) and construction (-1.5%). All in all, total employment in Q1 was at the Q3 2006 level, with around 144mn officially registered as employed. This is still significantly under (-1.2%) the level recorded in Q1 2009 and is consistent with an unemployment rate of 10%, the highest level since H2 1998, which will have direct negative influences on private consumption.

▶ China: Trade surplus increases


Exports surged in May—up 48.5% yr/yr, well above expectations—taking the trade surplus to USD19.5bn (USD1.7bn in April and small deficit in March). Imports also increased strongly (48.3% yr/yr) and this is indicative of continued positive demand expectations. The bi-lateral trade surplus with the US continues to be high, so expect continuing scope for friction between the two countries, particularly over appreciation of the exchange rate. Also in May, retail sales growth was slightly above and industrial output growth slightly below expectations, bank lending continued at a more moderate pace but still above target and consumer price inflation was 3.1% yr/yr. Data are mixed, but on balance do not point to growth slowing abruptly or inflation accelerating alarmingly at present.

▶ US: “Modest” recovery

Fed Chairman Ben Bernanke spoke three times last week and indicated that he thought a “modest” recovery was underway, including strength in consumer spending and business investment. He also reiterated the common opinion that the unemployment rate will fall only at a very slow pace. Bernanke forecast GDP growth for 2010 of a healthy 3-4%. The Fed’s “Beige Book” report noted similar positive developments in all 12 Fed bank districts. The Fed meets next week and is widely expected to leave rates untouched, but may alter the language in the statement, perhaps signalling a subtle shift away from the current stance. Retail sales slipped 1.2% in May, but on a real and yr/yr basis sales are still growing at a solid 4.6%.

▶ Slovak Republic: Election aftermath

President Gasparovic gave PM Fico the first option of forming a government, following last weekend’s parliamentary elections in which Fico’s Smer party gained 34.8% of the vote (62 seats; up from 29% and 50 seats in 2006). However, Smer’s success was at the expense of its current coalition partners, with the SNS gaining just 5.1% (9 seats) and the HZDS without parliamentary representation. As a consequence, four broadly centre-right opposition parties won a narrow majority of 79 out of 150 seats in parliament and have pledged to form a government. Their common aversion to PM Fico may help in this respect but personal rivalries and disagreements could arise as obstacles to a long-term stable government. Nonetheless, overall systemic political risk will remain low, underpinned by EU membership.

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► **Mediterranean countries & Africa – Morocco: Growth outlook**

Official figures indicate that GDP growth had slowed to 4.9% yr/yr in 2009 from 5.3% in 2008. The slowdown would have been more pronounced if there had not been an exceptional harvest and therefore above-average contribution from the agricultural sector. Nevertheless, the economy showed resilience from recession in some major trading partner countries and recent business surveys suggest that a majority of companies are expecting increased output in Q2 2010 relative to Q1 (particularly in construction, but also food processing, chemicals and minerals production). However, with a relatively weaker performance by agriculture—which accounts for over 40% of the workforce—and uncertainties in key export markets—around 50% by value go to the EU—expect overall GDP growth of 4-5% in 2010 and in 2011.



► **Americas – Venezuela: Exchange rate regime**

Changes to the exchange rate regime have created a third regulated tier determined by the US-dollar bond market. Anyone who cannot obtain foreign exchange through the Cadivi system will have to obtain it by buying US dollar-denominated bonds from the central bank. The main aims of the authorities are to prevent speculation and capital flight and to help curb inflation. However, it remains to be seen how effective this will be as the central bank will need to make the process work effectively enough to ensure adequate supply of goods, including food and raw materials, most of which are imported, and police any “parallel market”. Inflation was 31.2% yr/yr in May and the economy is likely to contract again in 2010, while important legislative elections are scheduled for September.



► **Asia-Pacific – Singapore: Strong Q1 and Q2 growth**

Very high export dependency makes the economy vulnerable to external and cyclical shocks—highlighted again by the recession in 2008-09 in the wake of the global economic crisis. However, as a result of very sound macro-economic fundamentals, the economy has recovered quickly since mid-2009 and posted 15.5% yr/yr growth in Q1 2010. April data for manufacturing output (+51% yr/yr) and total exports (+30%) indicate strong growth in Q2 as well, even though retail sales fell 2.6%. Base effects imply that growth will ease in H2. Expect real GDP to increase by 7%+ in calendar 2010. The political system in Singapore is stable and policymaking is very effective and the business environment is among the strongest in the world. Overall country risk is very low.



► **Europe – Bulgaria: Statistical anomalies**

The pace of real GDP contraction eased to 3.6% yr/yr in Q1 from 5.9% in Q4 2009. Early indicators for Q2 signal that industrial output and exports have started to recover. Even so, expect the economy to contract moderately in 2010 as a whole. Last week, the EU commission expressed concerns over Bulgaria's national statistics, indicating that the country may have its data examined under new EU audit powers. This comes shortly after the government had to revise its 2009 budget deficit from 1.9% of GDP to 3.7%, allegedly resulting from secret procurement deals of its predecessor. While the authorities may need to put ambitious euro adoption plans on hold, they remain firmly committed to the currency board arrangement in place, which does not appear to be at risk for the time being.

Worth knowing

► **India**

Wholesale price inflation was 10.2% yr/yr in May, well above expectations and the government's 5-6% target range. Expect further monetary tightening, with interest rates likely to rise before the scheduled July monetary policy review.

► **Iran**

On 9 June, the UN Security Council passed a further (fourth) round of sanctions against Iran.

► **Kyrgyzstan**

Two months after the ousting of President Bakiyev through mass street protests, violent ethnic riots between Uzbeks and Kyrgyz flared up in the south last week, prompting more than 50,000 ethnic Uzbeks to flee across the border to Uzbekistan.

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