



Weekly Export Risk Outlook



EULER HERMES

8 July 2010

In the Headlines

FIGURE OF THE WEEK: **+11.7%** > TURKEY'S Q1 GDP GROWTH

▶ US: Employment report concerns

June's employment report was disappointing for some, yet others remain hopeful. Stripping out the distortion of the temporary hiring and firing of Census workers, the private sector created 83,000 jobs in June, an improvement on the 33,000 in May. The weakness over the past two months has caused concern over a double-dip recession, but it was the 6th consecutive month of growth and average weekly hours are now up 2% yr/yr. Further, this type of pause is quite common as job markets recover. However, consumer confidence did drop from 63.3 to 52.9, the S&P 500 fell 5% last week and risk-aversion drove the yield on the 10-year Treasury note below 3%, despite positive data on personal income and spending and the ISM surveys.

▶ France and Germany: Gloomy construction outlook

According to an EH study, the outlook remains gloomy for the construction sectors in France and Germany in 2010-11, despite the structural differences observed in the last 10 years. Overall turnover is expected to drop by 2% in Germany in 2010 and 3% in France, with no rebound in sight before 2012. Private construction is strongly affected by households' finances and by unfavourable prospects (e.g. employment, wages and fiscal measures). Accelerated fiscal consolidation is also likely to hamper public construction, especially in France this year. At the same time, companies face higher costs, mainly owing to the upward trend in prices of steel and other materials, which will erode business profitability—expected to drop by 20% in Germany and 30% in France in 2010—keeping open the door to another increase in insolvencies in this sector in both countries.

▶ Turkey: Q1 real GDP growth

Q1 real GDP growth accelerated to 11.7% yr/yr from 6% in Q4 2009. However, this was supported by strong base effects and inventory re-stocking and on a qtr/qtr, seasonally and working day-adjusted basis growth was just 0.1%, following three quarters with an average expansion of 3.5%. The yr/yr surge was led by strong growth of private consumption (9.9%) and private investment (22.1%), buoyed by low interest rates and improved consumer and business confidence. Meanwhile, public consumption growth slowed to 1% and public investment contracted by 25.6%. Net trade made a negative contribution as exports shrank by 0.1% and imports rose by 21.1%. Expect this pattern of expenditure broadly to continue, resulting in full-year growth of about 4.3%. The current account deficit widened to about 6.2% of GDP in Q1 from 2.3% in calendar 2010.

▶ India: Monetary tightening

On 2 July, the Reserve Bank of India (RBI) raised its two key policy rates (repo and reverse repo) by 25bps—in advance of its quarterly monetary policy meeting scheduled for end-July, at which rates could be increased by a further 25bps. This is not surprising, particularly as wholesale price inflation (used for official targeting) was 10.2% yr/yr in May (which will be given ST impetus by last week's action to liberalise fuel prices) and GDP growth remains strong (8.6% yr/yr Q4 FY2009/10). Rates have now been increased by a cumulative 75bps in the current tightening phase and a further 100bps could be added by end-2011. Yet, even with this monetary tightening, in conjunction with a reduced fiscal stimulus, expect overall GDP to increase by around 8% in both 2010 and 2011.

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► **Mediterranean countries & Africa – *East Africa: Integration***

Kenya, Tanzania, Uganda, Burundi and Rwanda, under the banner of the East African Community (EAC), launched a common market on 1 July. With free movement of goods, services and capital, the combined market comprises over 130mn people with a GDP of around USD71bn. The EAC's economic base is relatively diverse, with agriculture and tourism across the region and established or nascent sectors exploiting oil (Uganda), minerals (Tanzania) and manufacturing and financial services (Kenya). However, expect continuing differences in relation to interpretation and implementation of the workings of a common market. Moreover, scheduled monetary and political unions (2012 and 2015) appear unlikely to be completed on time. Nevertheless, general trading conditions should improve in this region, with GDP growth for EAC around 5% in 2010 and 7% in 2011.



► **Americas – *Mexico: State elections***

The opposition PRI—which ruled for more than 70 years unbroken until 2000—won nine of twelve elections for state governorships last weekend that were widely seen as a potential barometer of the party's recent resurgence ahead of presidential and legislative elections in 2012. The results, however, were mixed, as the PRI gained three states where it had been out of power for 12 years, but also lost three large states that were former strongholds. Importantly, in these three states, the ruling PAN and the other opposition party, the PRD, formed an alliance to defeat the PRI, though whether this could be replicated at the national level remains to be seen. Overall, the PRI's momentum may have been dented but its probable candidate for the presidency should remain the frontrunner.



► **Asia-Pacific – *Vietnam: Q2 real GDP***

Q2 real GDP increased by 6.4% yr/yr (5.8% Q1) taking H1 growth to 6.2% yr/yr—a shade under the official government target of 6.5% for the year. Export growth held up well in H1 (+15.7% yr/yr and 22.4% if gold and gold products are excluded), though imports grew more strongly (+29.4% yr/yr) driven mainly by raw materials. Inflation in June was 8.69% yr/yr, down slightly from 9.05% in May. With global economic growth set to slow, inflation relatively high and the trade balance still a potential threat, policymakers may have to make some tough choices, given the government's objective of raising growth to 7-7.5% in 2011, but for the time being at least they will probably continue to focus on growth, especially as exchange rate pressures have receded in the past few months.



► **Europe – *Ukraine: Deal with the IMF***

An IMF mission has reached staff-level agreement with the authorities on a new 2.5 year, USD15bn Stand-By Arrangement, aimed at supporting the budget and FX reserves. Final approval of the funding, which depends on parliamentary approval of a new budget code and financial sector reforms, appears likely, but it will be challenging to stick to the programme's successive targets. The fiscal deficit has to be contained to 5.5% of GDP in 2010 and 3.5% in 2011 and particularly unpopular reforms to raise energy tariffs substantially and overhaul the pension system are required. Failure to implement such reforms already led to the suspension of the previous IMF funding programme in late 2009. Yet, the new government is more cohesive than its predecessor and thus may be stronger in policymaking.

Worth knowing

► **Romania**

The IMF has completed the fourth review under a 24-month Stand-By Arrangement, enabling the disbursement of about EUR900mn. The decision was briefly postponed last week after the Constitutional Court overturned some measures essential for curbing the fiscal deficit but the government was quick to provide alternative measures.

► **Poland**

Bronislaw Komorowski of the main ruling Civic Platform party won the presidential run-off against Jaroslaw Kaczynski.

► **Kyrgyzstan**

A referendum has been held successfully that will adopt a new constitution, paving the way for the establishment of a parliamentary democracy and elections before year-end. However, simmering ethnic and political conflicts remain serious risks.

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