



Weekly Export Risk Outlook



EULER HERMES

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In the Headlines

FIGURE OF THE WEEK: **+19.3%** > SINGAPORE'S Q2 GDP GROWTH

▶ China: Q2 GDP and inflation

Real GDP growth in Q2 was 10.3% yr/yr, according to official data released today, down from 11.9% in Q1, confirming that the economy is slowing. H1 growth was 11.1% yr/yr, with retail sales up 18.2%, industrial production 17.2% and fixed asset investment 25%. More surprising was the slowdown in June consumer price inflation—which eased to 2.9% yr/yr from 3.1% in May—when consensus forecasts had expected a rise. Producer price inflation also fell, to 6.4% yr/yr from 7.1%. Along with June data, which had increases in retail sales, industrial production and fixed assets slowing compared with May and by more than consensus expectations, latest indicators suggest that the policy focus increasingly will move away from prevention of overheating and towards avoidance of a hard landing. Expect growth to slow to the 8-9% range.

▶ Singapore: Exceptionally strong Q2 growth

According to advance estimates Q2 real GDP growth accelerated to 19.3% yr/yr from 16.9% in Q1 (the latter was revised upwards from 15.5%). On a qtr/qtr, seasonally-adjusted annualised basis, Q2 GDP grew 26% after 45.9% in Q1 (revised from 38.6%). Manufacturing was once again the main growth driver, soaring 45.5% yr/yr in Q2, largely as a result of continued surges in the electronics and biomedical sectors. The markedly strong growth of 18.1% yr/yr in H1 is unlikely to be sustained in H2, however, as base effects will wane and external demand is expected to decline. This outlook is supported by some recent monthly data. In June, merchandise exports contracted by 1.8% mth/mth and the manufacturing PMI dropped as new orders fell. Nonetheless, the growth forecast for calendar 2010 needs to be raised to double-digits—expect 12% or more.

▶ Germany: ZEW expectations down again in July

The ZEW current economic conditions index, which measures the opinion of around 350 institutional investors and analysts regarding the current trend of activity in Germany, posted another rise in July, the 14th consecutive month of improvement, largely the result of developments in exports and industrial production, and moved into positive territory (+14.6 after -7.9 in June) for the first time since the fourth quarter of 2008. At the same time, the ZEW expectations index, which measures the future trend of activity decreased for the third time in a row, to 21.2 after 28.7 in June (and 53.0 in April), below its long-term average for the first time since Q2-2009. This further fall suggests that the rate of growth should slow in H2, which is in line with EH expectations for GDP (+1.6% in 2010 and +1.3% in 2011).

▶ India: Industrial output

Industrial production increased 11.5% yr/yr in May, down sharply from 16.5% in April and raising some doubts as to the strength and sustainability of the economic recovery. Output of capital goods slowed markedly in May, although production of such items can be volatile in monthly data, but production growth in consumer durables also slowed. However, the authorities are unlikely to be overly-concerned, partly because industrial output growth has been double-digit for eight consecutive months and some correction to a more moderate rate of expansion could have been expected. The manufacturing sector PMI remains comfortably above the 50 level, suggesting continued expansion. Expect the RBI to continue with its tightening of monetary policy. The IMF is now forecasting GDP growth of 9.4% in FY2010/11, compared with the RBI's 8.2% and our modest 8%.

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► **Mediterranean countries & Africa – *South Africa: World Cup***

Despite some pre-event concerns, the football World Cup 2010 was a success in that stadia were completed on time, transport and communication systems proved capable and security was not disrupted by terrorist attack or internal dispute. Official statistics indicate that around 1.4mn tourists visited the country during the period—25% up on the previous year and above projections—and most were first time visitors. It remains to be seen how many return visits will result and to what future usage the stadia can be put, but the ST impact of the event has been positive. The country's LT problems—including crime, unemployment and large income disparities—remain daunting challenges but the World Cup showed to a wide audience that the country's government and business community have organisational capabilities. Expect GDP growth of 3-3.5% in 2010, after contraction of 1.8% in 2009.



► **Americas – *Ecuador: Oil agenda***

Q1 2010 real GDP increased 0.5% yr/yr. 2009 growth was 0.4%, despite a fall in oil output, which is likely to remain a constraint amid changes that will increase the state's revenues, but probably inhibit investment. The fiscal deficit—5% of GDP in 2009—is unlikely to fall much in 2010 as higher oil revenues will be mostly offset by a planned fiscal stimulus, although financing could be a constraint. The economy is formally dollarised, but this could come under pressure if public expenditure continues to grow beyond revenues. The current account is in small deficit and FDI flows are relatively weak. There has been greater political stability since President Correa's election, but the institutional framework remains weak and there are concerns over the impact of his radical-left agenda on the business environment.



► **Asia-Pacific – *South Korea: Monetary tightening***

Inflation remained moderate at 2.6% yr/yr in June, well within the central bank's 2-4% target range. Nonetheless, the central bank last week raised its key policy interest rate by 25 bps to 2.25%, citing increasing domestic demand pressures, as private consumption and facilities investment (in particular) have maintained upward trends. Industrial production expanded by 20.8% yr/yr in April-May, while unemployment fell to just 3.2% in May. Exchange rate volatility increased sharply in May-June as market sentiment deteriorated temporarily over heightened tensions between South and North Korea. In mid-June, the authorities introduced some restrictions on speculative capital flows to curtail extreme currency swings and to reduce ST external debt, but these measures will not affect LT economic trends.



► **Europe – *Serbia: IMF funding on track but risk remains high***

At end-June, the IMF completed its fourth review under a 27-month Stand-By Arrangement (providing around EUR3.1bn in total), enabling the immediate disbursement of EUR380mn. However, the economic recovery has been hesitant—real GDP increased by just 0.6% yr/yr in Q1 and is forecast to grow by around 1.5% in calendar 2010 as domestic demand contracts. The weak economic performance has caused a shortfall in fiscal revenues and the IMF has relaxed the fiscal deficit targets to 4.8% of GDP in 2010 (up from 4.1%) and 4% in 2011. The current account deficit has improved markedly from the 17.6% of GDP in 2008 but remains a concern at a projected 8.5% this year. Even more concerning is external debt, which is expected to rise to 77% of GDP, and its servicing. The RSD/EUR exchange rate has fallen 8.8% year-to-date.

Worth knowing

► **US**

The Fed cut its "central tendency" growth forecast for the US in 2010 to 3.0-3.5%, down from 3.2-3.7% in April's forecast.

► **UK**

Consumer price inflation at 3.2% yr/yr in June dropped to its lowest level since February (after 3.4% in May) but was still above the official target rate of 2%.

► **Interest Rates**

Thailand increased its key policy rate by 25bps to 1.5% (14 July). **Malaysia** increased its rate by 25bps to 2.75% (8 July).

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