



# Weekly Export Risk Outlook



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In the Headlines

FIGURE OF THE WEEK: **USD2.4TN** >INCREASE IN US DEBT CEILING

## ▶ US: Agreement to increase debt ceiling

Politicians struck a last-minute deal to raise the debt ceiling by USD2.4tn, thereby averting a default. Equivalent spending cuts, a mere 5% of a previously-bloated budget, over the next 10 years are to be identified by a committee of 12 Congressmen but no tax increases were included. Meanwhile, economic data are becoming alarming, increasing the risk of a double dip recession. Q2 GDP was a very weak 1.3% qtr/qtr annualised, with consumption growing only 0.1%, and Q1 GDP was revised down to a mere 0.4%. The ISM manufacturing index fell to 50.9, perilously close to the 50 level, which would indicate contraction and new orders now stand at 49.2. Moreover, data on auto sales and personal income also disappointed, while personal consumption shrank in June. The employment report is due on Friday and positive news on that front would provide a welcome boost.

## ▶ Euro-zone: Concerns remain

Latest data appear to suggest that the region's economic recovery is slowing. In June, the rate of unemployment remained at 9.9% for the fourth consecutive month and in July annual inflation, at 2.5%, remained above the 2% ECB target. Public sectors remain under pressure from financial markets, particularly in Spain and Italy (the third and fourth largest Euro economies), while a new fiscal plan has been proposed for Greece. Rates of household consumption and investment continue to disappoint, with a gross business investment rate of 20.7% in Q1, compared with 23% pre-crisis, although the business profit share is approaching its pre-crisis level (38.5%, compared with 39%).

## ▶ China: Slowdown

Latest manufacturing PMIs reinforce the view of a slowing economy, with the official survey hovering around the critical 50 mark, the fourth successive monthly decline in the official survey, to a 27-month low, although the survey was not as weak as market expectations and the rate of decline slowed. The orders component was better than the output component, although it was domestic orders that were the more optimistic, not exports. Overall, this still looks more like a slowdown and not a crash. Moreover, price indices in the survey showed signs of moderation, which also tends to underscore expectations that inflation may begin to ease before long and eventually allow a shift in policy away from tightening.

## ▶ Cyprus: Political stand-off

The government resigned last week as the coalition could not agree on measures to reduce the fiscal deficit. President Christofias is now trying to form a new government with better prospects of consensus, although his own position is under severe criticism as a result of the explosion that devastated around half of power-generating capacity, hitting both GDP prospects and the fiscal deficit (reconstruction will increase public spending). Political deadlock comes at a bad time, amid market concern over the impact of the Greek bond exchange on Cyprus' banks, as well as their overall exposure to Greece. The deficit could be manageable with prompt action, although some disaster support from the EU and, possibly, bank recapitalisation funds, may be necessary. The political crisis, however, needs to be resolved quickly.

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### ► Mediterranean countries & Africa – *South Africa: Economy*

Strikes in the coal and gold mines were called off after labour unions managed to secure two-year wage deals from employers, with average wage increases ranging from 7.5% to 10%. Partly reflecting this recent bout of organised labour action, the latest PMI slumped to a two-year low of 44.2 in July (53.9 in June, having peaked at 57.2 in March), suggesting contraction in new sales orders and in employment. Unemployment in Q2 had already deteriorated to 25.7% (25% Q1). In addition, vehicle sales growth appears to be losing momentum and credit growth was subdued in June (5.25% yr/yr), although the merchandise trade deficit has improved (ZAR2.64bn in Jan-June, compared with ZAR8.65bn in the same period of 2010). Expect GDP growth of around 3.5% this year but only 3% in 2012.



### ► Americas – *Peru: New government*

President Ollanta Humala took office at the end of last week. His appointments as FM and head of the central bank provide some assurance of moderate macro-economic policies in the near term. The new president was sworn in under the 1979 constitution, however, not the current one, giving rise to speculation that he still intends to amend the constitution to allow more state intervention. The new government will almost certainly seek more revenues from the mineral/mining sector to fund targeted public spending on the poor, but it remains to be seen if the president will try to amend the constitution. One important constraint is that he needs the support of former president Toledo's party in the National Assembly, where he lacks an overall majority.



### ► Asia-Pacific – *Bahrain: Further protests*

Demonstrations took place in Manama on 29 July, with opposition groups, including al-Wefaq, claiming that the results of the National Dialogue fail to bring the prospect of real democratic reform. King Sheikh Hamad al-Khalifa had accepted the recommendations of the Dialogue, a state-appointed body tasked with tackling answers to political grievances, the previous day. Although the Dialogue suggests greater powers of scrutiny for the elected lower house within parliament it is not suggesting it has a legislative capacity, which is to remain the domain of the higher chamber, members of which are appointed by the king. With proposed concessions not addressing perceived fundamental problems, further protests seem likely. Expect security forces to act to disperse any mass demonstrations.



### ► Europe – *Lithuania: Q2 GDP*

The official first estimate put Q2 real GDP growth at 6.1% yr/yr and 0.2% qtr/qtr. This was the fifth consecutive quarter of annual growth in the recovery from severe recession, but a deceleration on Q1 annual growth of 6.9% yr/yr and quarterly growth of 3.5%. The upturn continued to be supported by industrial output growth, private consumption and base effects from a low H1 2010, as indicated by industrial production and retail sales data for H1. Consumer confidence at the start of Q3 edged up, but it is likely that overall GDP growth will slow in H2, as base effects recede and export growth moderates, although the recovery should remain solid. The central government deficit was reduced to 2.9% of GDP in H1, compared with 4.3% in H1 2010.

## Worth knowing

### ► Spain

On 29 July, PM José Luis Rodríguez Zapatero called a general election to be held on 20 November, four months ahead of the existing electoral schedule.

### ► Turkey

Four of the country's top generals resigned on 29 July in protest at the ongoing legal action against armed forces personnel charged with plotting against the government. This may strengthen the position of the civilian government and the AKP, relative to the military, in the short term.

### ► Uganda

The Bank of Uganda increased its key policy rate by 100bps to 14% (2 August) in response to official concerns about high credit growth and inflation (18.7% yr/yr in July).

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