Weekly Export Risk Outlook

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In the Headlines

FIGURE OF THE WEEK: USD110 >BARREL PRICE OF BENCHMARK BRENT OIL

US: Employment and housing pick up

There are more signs of emerging strength. Weekly jobless claims fell 50,000 in the week to 14 January, the largest fall in over six years. The four-week moving average has fallen 10% since September 2011 and now stands at 379,000, a level that is closer to that recorded in a period of normal expansion. Meanwhile, the housing market is showing signs of life. Existing single-family home prices increased for the second straight month, unit sales increased for the third consecutive month and supply fell to 6.1 months, the lowest since the housing bubble burst in 2006 and less than the long-term average of 7.3 months. However, it is important to note that the housing market has signalled many false starts since the bubble burst.

Brazil: Interest rates cut again

The central bank's monetary policy committee last week lowered the policy rate by 50bps to 10.5%, the fourth consecutive cut since August 2011 when the previous policy of tightening began to be reversed. Although inflation remains above the target range the bank expects the downward trend to remain intact, supported, among other things, by latest expectations surveys. Policy loosening also reflects the need to offset the slowdown in the domestic economy in H2—real GDP was flat in Q3 and PMIs have been below 50 for several months, although the central bank's activity indicator turned up in November—and the negative consequences of the global slowdown and Euro-zone debt crisis. Private sector credit growth has also moderated—a key objective of previous tightening. Expect further interest rate cuts through 2012.

India: Policy shift?

Although the Reserve Bank of India (RBI, central bank) kept its key policy interest rate unchanged yesterday (8.5%) it lowered its cash reserve ratio by 50bps to 5.5%, suggesting that the tight monetary policy stance of 2010-11 may be at an end. The RBI is concerned about the deterioration in the external economic environment and weakening domestic growth, but cautions that inflationary pressures are still a focal point of policy—even though wholesale price inflation eased in December 2011, to 7.47% yr/yr after 9.1% in November—so monetary easing is likely to be phased in rather than implemented quickly. Even so, expect policy interest rate cuts going forward, perhaps starting in Q2, and further lowering of reserve requirements. Meanwhile, the government, perhaps chastened by criticisms of policy paralysis, is making concerted attempts to boost growth. A USD35bn public sector investment programme was recently unveiled and foreign direct investment up to 100% is now permitted in single-brand product retail trading.

Morocco: Growth outlook

Q3 2011 GDP increased by a preliminary 4.8% yr/yr, after 4.2% in Q2, driven by a good contribution from the important agricultural sector—accounting for around 15% of GDP and 40% of the labour force—but also strong domestic demand resulting from higher government spending intended to limit potential social tensions. Household consumption increased by 7.3% yr/yr in Q3. With Europe accounting for around 60% of merchandise trade flows, Euro-zone sovereign debt and related concerns suggest a challenging outlook in 2012 as potential weaknesses emerge through trade, tourism, investment and remittance channels. Overall, expect annual GDP growth of around 4% in 2011 and 2012.

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Countries in Focus

Mediterranean, Africa & Middle East – *South Africa: Inflation*

Key policy interest rates were left unchanged—repo at 5.5%—at last week's meeting of the monetary policy committee as the central bank indicated concern over the impact of a slowing global economy and sovereign debt problems in the Euro-zone. In addition, the ZAR has been volatile and weak, imposing further inflationary pressures at a time of increases in administered prices, particularly for electricity. As a result, expect inflation to remain above the upper end of the target range (3-6%) for most of this year and average around 5.8% in 2012, suggesting that monetary easing is unlikely in the short term unless the growth outlook deteriorates sharply. With recent PMI data for December 2011 dropping below the critical 50-index level (49.4 from 51.6 in November) expect GDP growth of only around 3% in 2012.

Americas – *Mexico: Monetary policy on hold*

The central bank last week left interest rates on hold again, at 4.5%. The bank has become more concerned about growth prospects—although the November economic activity indicator released this week was up 3.8% yr/yr, slightly better than October, the pace was slower than Q3—and put December's inflation rise down to temporary factors, although in the first half of January it remained towards the top of the 2-4% target range. Monetary policy will remain finely balanced in 2012 with prospective growth of 3.5% heavily contingent on US economic momentum and inflation still in the upper part of the target range. Meanwhile, in the presidential elections (July), for which all the three main parties but the ruling PAN have chosen their candidate, the PRI maintains a significant lead in opinion polls.

Asia-Pacific – *Philippines: Monetary policy easing*

The central bank last week lowered its key policy interest rates by 25bps to 4.25% for the overnight borrowing rate and 6.25% for the overnight lending rate, indicating that a benign inflation outlook allows some monetary easing to support economic activity and market confidence. Faltering global demand has dented Philippine exports and economic growth since Q2 2011. After being fairly elevated for most of the year, headline inflation declined to 4.2% yr/yr in December 2011 and the central bank expects it to fall within the lower half of its 3-5% target range in 2012. Core inflation fell to 3.4% in December from a peak of 4% in June. Upside risks to the inflation outlook include the impact of political tensions in the Middle East on global oil prices and the effect of strong capital inflows on domestic liquidity.

Europe – *Kazakhstan: Default of third-largest bank*

State-controlled BTA Bank, Kazakhstan's third largest lender, defaulted on a USD160mn interest payment due on 18 January (including grace period). It remains unclear for now why the National Welfare Fund (the formal owner of BTA) did not pay the relatively modest sum. It may be that BTA is seeking further debt restructuring. The event has raised anew concerns about the banking sector as a whole, which has been in trouble since 2007 and was largely nationalised in 2009 following the default of four major banks. The latest default may also adversely affect the sovereign's credibility in international financial markets. Nominally, Kazakhstan has ample reserves—assets of the National Oil Fund amounted to almost USD44bn and the central bank's FX reserves were USD25bn at end-2011.

Worth knowing

Croatia

Around two thirds of participants in last Sunday's referendum voted in favour of EU membership, although the low turnout of 44% somewhat weakens the result. This paves the way for Croatia to join the EU in July 2013.

UK

Real GDP contracted by 0.2% qtr/qtr in Q4, according to preliminary official estimates. The latest data takes growth in 2011 to just 0.9% (2.1% 2009).

Iran

The EU formalised (23 January) its earlier declaration to phase in a ban on imports of Iranian crude oil. In addition, the EU imposed some financial sanctions on the Iranian central bank and placed restrictions on the export of some goods, including precious metals, to that country.