



Weekly Export Risk Outlook



EULER HERMES

11 August 2010

In the Headlines

FIGURE OF THE WEEK: **USD28.7BN** > CHINA'S TRADE SURPLUS

▶ China: Trade surplus increases

The sharp fall in the trade surplus earlier this year has been reversed rapidly and it rose to USD28.7bn in July. Exports were up 38.1% yr/yr (43.9% June) and imports 22.7% (34.1% June). The import growth slowdown, along with a raft of other indicators released recently, points to a weakening pace of domestic demand growth. Industrial production, retail sales, fixed asset investment growth all slowed in July, as did bank lending and M2. This evident cooling should reinforce the policy emphasis towards maintaining GDP growth, even though the CPI in July hit a 28-month high of 3.3% yr/yr, boosted by rising food prices. The increase in the trade surplus may also re-focus attention on the exchange rate, which in July barely changed against the USD, despite June's indications by the central bank of a more flexible policy.

▶ Greece: First review

An EU/IMF mission completed the first quarterly review of the country's economic programme, with a largely positive overall conclusion. End-June quantitative targets were met. Public spending was significantly below budget at the state level, although there were sub-national level slippages. Structural reforms have begun, including changes to pension arrangements, and the government faced down lorry driver strikes over transport liberalisation. Nonetheless, there is a long way to go. As yet, the authorities have not been able to re-enter capital markets (except ST T-bills) and reform momentum will have to be maintained, despite probable entrenched opposition and a near-term contraction of GDP (IMF expects -4% in 2010 and -2.5% in 2011).

▶ Pakistan: Worst floods in 80 years

Humanitarian concerns take priority but the current floods have significant economic and political implications. Initially affecting the NW province of Khyber Pakhtoonkhawa, the floods have spread southwards to the agricultural and industrial areas of the Punjab and Sindh. Further monsoon rains are likely, with associated larger economic and human costs. Reconstruction work will boost GDP growth later this year and into 2011 but in the short term expect significant disruption to infrastructure, transport, communications and agricultural and industrial output. In addition, a perception that the domestic official response is both slow and ineffective heightens pressures on President Asif Ali Zardari, who is already dealing with prolonged political and economic crises. The country's history of military intervention in politics provides further uncertainties in troubled times.

▶ Russia: Heat, drought and fire

The country is currently experiencing extremes of heat, drought and wild fires that have caused human suffering for several weeks and that will also have a considerable impact in economic terms. The agricultural sector, in particular, is being affected, with current estimates indicating that the grain harvest is already 35-40% down from last year. This will also negatively impact the food industry. Further, some industrial companies in areas affected by fires have temporarily shut down production. A ban on grain exports will also have a global impact as Russia is the world's third largest wheat exporter. However, the overall effect on the wider domestic economy is likely to be limited, as long as the oil and gas sectors escape the fires. Q3 GDP will suffer, but reconstruction should boost growth thereafter. To date, financial markets have remained fairly calm.

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► Mediterranean countries & Africa – *Kenya: Constitution*

Last week's peaceful referendum endorsed a new constitution, with 67% in favour. This should lead to an improved bill of rights, devolution of some power to the regions, land reform and curbs on presidential authority. However, do not expect swift changes as a lengthy passage through parliament can now be expected, with factions seeking to gain political advantage. Nevertheless, given the violence and disruption in early 2008 after disputed presidential elections in late 2007, the referendum could mark a significant change in the political environment, with increased stability and unity. In turn, there are potential economic benefits if investors and the donor community become more supportive. Expect annual GDP growth of 3-5% in 2010 and 2011, up from 1.5-2.5% in 2008 and 2009.



► Americas – *Chile: Further monetary tightening?*

The June monthly activity index, released last week, was up 6.8% yr/yr and 0.8% mo/mo, sa. While formal data will not be released until next week, this should put Q2 GDP growth at just over 6% yr/yr, a pronounced recovery from Q1. Both figures are affected by the major earthquake earlier this year, the former by reconstruction activity and the latter by disruptions to output. With Q3 real GDP expected to maintain growth of around 6% and inflation at 2.2% yr/yr and 0.6% mo/mo in July—the median of local inflation forecasts in the central bank's expectations survey for end-2010 is 3.6% yr/yr—the central bank is likely to continue monetary tightening, which began in June. Expect another increase in the policy interest rate at this week's monetary policy meeting, probably of 50bps to 2%.



► Asia-Pacific – *Philippines: Resilient*

The economy has shown a marked resilience to the global economic crisis and has avoided recession. Real GDP growth was 0.9% in 2009 overall and accelerated to 7.3% yr/yr in Q1 2010. As the latter was in part boosted by pre-election spending, expect moderation to 5-6% growth in 2010 as a whole. Annual inflation has been broadly stable year-to-date and, at an average 4.2%, is on track to meet the authorities' 2010 target band of 3.5-5.5%. The PHP/USD exchange rate has also been broadly stable, since early 2009, although it remains vulnerable to external shocks as was shown by the temporary 6.5% softening in May 2010 as a result of global concerns about the sovereign debt crisis in the EU. The budget remains a cause for concern, however, as the H1 fiscal deficit was 35% above target.



► Europe – *Latvia: Gradual recovery*

The pace of real GDP contraction eased to 3% yr/yr in Q2 (flash estimate) from 6% in Q1 and 16.9% in Q4 2009. On a qtr/qtr and seasonally-adjusted basis, real GDP increased by 0.1% in Q2, the second consecutive quarter of growth after 0.3% in Q1. According to the Central Statistical Bureau, value added in the industrial sector grew strongly, by 14% yr/yr in Q2, as a result of a rebound in export demand, but construction and services still contracted considerably. The current account recorded a surplus of USD825mn in January-May 2010, suggesting that the full-year surplus may reach 8-10% of GDP, as it did in 2009. Consumer price deflation has eased from a peak of 4.2% yr/yr in February 2010 to 0.6% in July. On a mo/mo basis, consumer prices increased by 0.2% in July, after 0.4% in June.

Worth knowing

► US

Non-farm payrolls fell by 131,000 in July and growth in private sector jobs was just 71,000, better than June but relatively weak.

► Italy and Spain

Italy: Q2 real GDP increased 0.4% qtr/qtr (first estimate). **Spain:** Q2 real GDP increased 0.2% qtr/qtr (central bank estimate).

► Other Q2 GDP data

Estonia: +3.5% yr/yr and +2% qtr/qtr (seasonally and working-day adjusted). **Indonesia:** +6.2% yr/yr, led by strong domestic private sector demand.

► Rwanda

Presidential elections (9 August)—expect incumbent Paul Kagame to have won easily, and policy continuity to prevail.

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