

Weekly Export Risk Outlook

17 January 2018

FIGURE
OF THE WEEK

+2.5%

Germany's 2017
GDP growth
(calendar-
adjusted)

In the Headlines



Germany: Strong economic expansion, no overheating

The German economy grew by +2.2% in 2017, the strongest pace since 2011. At +2.5%, calendar-adjusted (c.a.) growth was even higher. Domestic demand was a key driver of last year's upswing, expanding by +2.2% in real terms. It is worth noting that investment in machinery and equipment grew considerably stronger than construction investment, despite the fact that order books in the construction sector are full. Real exports were up by +4.7%. As global trade expanded by about the same magnitude, this means that the German export sector was able to uphold its share in world trade. The very positive economic development in 2017 came along with an extraordinarily strong employment growth. The number of people in work grew by +1.5%, the strongest rate of expansion in the last ten years. However, on the back of demographic developments, labor market dynamics are expected to moderate in the years to come. All in all, we expect the German economy to remain on a clear upward trend in 2018. Signs of overheating and capacity constraints should only be an issue in a few branches such as construction. As of today no major risks to the growth outlook 2018 (+2.5% c.a.) are on the horizon.



Morocco: MAD about exchange rate flexibility

The authorities implemented on Monday a reform on how the dirham (MAD) is quoted on markets. It will now be able to move freely in a $\pm 2.5\%$ band around the official basket rate (still weighing the EUR at 60% and the USD at 40%). This long awaited reform was feasible since the import cover of foreign exchange (FX) reserves is six months and inflation was +0.4% y/y in November. More flexibility to MAD fluctuations should be positive in two ways. First, too much stability in the past did not provide the right incentive for corporates to use hedging instruments as FX risks were underestimated. As a result, hedging instruments are still underdeveloped, weighing on the diversification of trade partners. Second, the MAD will now be able to depreciate when anchor currencies such as the EUR and the USD appreciate. This is a key move since the MAD gained against its trade partners' currencies by an average of +6% since 2012 while the currencies of many competitors depreciated during the same period.



Saudi Arabia: Outright recession in 2017

Recently released data by the General Authority for Statistics (GAS) show that real GDP contracted by -0.4% y/y in Q3 2017, following -1% y/y in Q2 2017 and -0.5% y/y in Q1. Demand-side details as well as data for Q4 are not available as yet. However, the GAS also provided first estimates for full-year GDP, indicating that the economy declined by -0.7% in 2017 as a whole. Supply-side estimates show that the oil sector shrank by -3% in 2017 while the non-oil sector grew by +1%. Within the oil sector, oil extraction dropped by -3.5%, impacted by the November 2016 OPEC agreement to cut oil output, while oil refining increased by +2.4%. Within the non-oil sector, construction (-3.4%) contracted sharply in 2017 while financial and business services (+2.2%), transport and communication (+1.9%), utilities (+1.3%), domestic trade (+0.6%) and agriculture (+0.4%) increased. For 2018, the government has announced a record budget to help pull the economy out of recession. Combined with higher average oil prices and base effects, this should result in GDP growth of +1.7% in 2018, Euler Hermes forecasts.



China: Bracing for slower growth?

The economy continues to show signs of strength yet a certain number of indicators in December 2017 pointed to slower momentum this year. On activity, USD-denominated exports growth moderated to +10.9% y/y (from +12.3% in November). And imports growth decelerated sharply to +4.5% y/y (from +17.7%). On financing, outstanding loan growth slowed to 12.7% y/y (from +13.3% in November). On prices, producer prices rose in December but at a slower pace (+4.9% y/y, down from +5.8%). Business confidence remains in check with both the official and the private PMI suggesting expansion in the near term for the services sector. On the manufacturing side, the official factory gauge decreased to 51.6 points (from 51.8 in November) on the back of slower growth in output and new orders. Looking ahead, economic growth is set to lose some steam in 2018 (we forecast +6.4%). Policy moves to improve growth quality may accelerate in the form of tighter credit conditions, stronger progress on SOEs reforms and further cuts in overcapacity. On the upside we expect accommodating fiscal policy to bolster domestic demand and a continued rise in per capita disposable income as well as strong corporate profits supporting economic growth.



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Countries in Focus

Americas

Peru: A little help from the Central Bank

Last Friday, the Central Bank cut its policy rate to 3.0%. It was the fifth cut since May 2017, bringing the rate 125bp lower in total. Inflation has dropped to a 7-year low of 1.4% y/y in December 2017, down from 4% in March. This drop was mainly a result of a correction of the supply shocks that affected the Peruvian economy at the end of 2016 (water deficit) and early 2017 (El Niño) but also in the three previous years. Climatic disruptions have indeed been more frequent since 2014. The Central Bank's move also follows a weaker than expected economic activity growth figure in November (+1.8% y/y after +3% in October and +3.1% in September). Moreover, it comes at a time of increased political instability: after avoiding an impeachment procedure, President Kuczynski pardoned former president Fujimori who had been jailed for twelve years, fueling social tensions.

Romania: First policy rate hike in 9 years, more to come

The National Bank of Romania (NBR; the central bank) raised its key policy interest rate by 25bp to 2.00% last week, the first hike in more than nine years. The move appears too late and too small to rein in overheating concerns. The latter have risen as real GDP growth surged to +8.8% y/y in Q3 while a tightening labor market and rapid nominal wage growth (+13% in 2017) have steadily pushed up headline inflation from -0.5% y/y at end-2016 to +3.3% y/y at end-2017, approaching the upper limit of the NBR's +2.5% ± 1pp inflation target range. Meanwhile, as imports grow faster than exports, the current account deficit widened to -EUR5.6bn in the first 11 months of 2017, almost twice as much as in the same period in 2016. Likewise, the fiscal deficit nearly doubled y/y in January-November 2017. On a positive note, private sector credit growth has been kept in check, at +6.8% y/y in November 2017. We expect further policy rate hikes in the course of 2018.

Tunisia: Policy trilemma about growth, liquidity and social cohesion

Real GDP growth was +1.9% y/y in the first three quarters of 2017, and Euler Hermes forecasts +2% for all of 2017 (after +1% in 2016). The main drivers in Q1-Q3 were tourism (+30% y/y in terms of arrivals), a rebound in phosphate output, and a genuine recovery of investment, particularly in the agricultural sector (+76.5% y/y in November). Despite the growth acceleration, Tunisia's liquidity position worsened to a new low, ending 2017 with just three months of import cover, reflecting the need for continued IMF funding under the EEF program currently in place. But conditionality is tricky as the disbursement of USD320mn is subject to a decrease of the fiscal deficit to below -5% of GDP in 2018 from -6% in 2017 (Euler Hermes estimate), in a context where public spending was used to preserve social cohesion. Moreover, another policy dilemma was to let the TND depreciate to a new low of 3 TND per EUR (triggered by low foreign exchange reserves as well as an IMF request), with an impact on households' purchasing power. Euler Hermes forecasts average inflation of 7% or so in 2018.

Asia Pacific

Asia: Trade figures - bad omen?

Asian economies have recorded strong growth rates last year, surfing on the global trade boom. At year-end though, signs of waning momentum started to emerge. Looking at trade hubs, USD-denominated exports growth slowed in Q4 2017 in South Korea (+8.5% y/y, down from +24% in Q3 2017) and in Taiwan (+11.7% y/y, after +16.8%). Slower GDP growth in Singapore (+3.1% y/y in Q4 2017, down from +5.4% in Q3) also signals slower trade expansion in the near term. Going forward, there is still room for cautious optimism. Regional exports growth could decelerate due to slower demand growth from China. Yet strong demand in advanced economies may act as a counterbalance. This relative optimism is comforted by still solid manufacturing PMIs in the Eurozone, the U.S. and Japan. Against this background, real economic growth in the Asia-Pacific region is set to decelerate but remain solid at +4.8% in 2018 (after +5% in 2017).

What to watch

- January 18 – China Q4 GDP
- January 18 – Colombia November retail sales
- January 18 – Portugal Nov. current account balance
- January 18 – South Africa monetary policy meeting
- January 18 – Turkey Central Bank meeting
- January 19 – Poland December industrial production
- January 19 – UK December retail sales
- January 22 – Spain November current account balance
- January 23 – Argentina December trade balance
- January 23 – Argentina Central Bank meeting
- January 23 – Eurozone ECB Q4 bank lending survey
- January 23 – Philippines Q4 and 2017 GDP
- January 23 – Turkey January consumer confidence
- January 24 – Eurozone January manufacturing PMI
- January 24 – France January business confidence

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