Euler Hermes Economic Research

# Weekly Export Risk Outlook

24 April 2019

## In the Headlines

FIGURE OF THE WEEK

+1.3%

**Q1 2019 y/y GDP growth in Singapore**

### Ukraine: A new president – a new era?

Volodymyr Zelensky, a comedian with no political experience, won the second round of the presidential election with a landslide on 21 April, gaining 73% of the vote. Incumbent President Petro Poroshenko got just 24%. Since Zelensky does not yet have a base in the parliament, the election outcome may intensify policy standstill – including crucial IMF-required reforms – until the legislative polls scheduled for October 2019. Snap elections would be a solution but supposedly there is no clear procedure for such a scenario. Poroshenko's failures during his term include a poor track record on IMF-mandated reforms, little progress in the fight against corruption and almost no advancement with regard to the Russian-backed insurgency in the east of Ukraine. To tackle the latter two issues was a key campaign promise of Zelensky, but we do not expect rapid, significant progress on these in the next two years or so. In the near term, an economic challenge is already waiting: Russia announced to ban oil and coal exports to Ukraine from June. As Russia accounts for 35% and 65% of Ukraine's total oil and coal imports, respectively, we expect supply shortages and, as a result, rising inflation in H2 2019.

### France: Pent-up demand?

The business confidence index came in at 101 points in April, the lowest level since June 2015, signaling that French corporates are facing higher inventories. Stocks of finished goods increased from March and have been kept at high levels in April. This rise came after two straight months of growth in manufacturing production (January-February) in an expected catch-up of demand after stagnation in Q4. But that catch-up did not happen since, e.g., domestic consumption in goods stalled in January-February. As a result, the production index of the business confidence survey deteriorated markedly in April. Carmakers, car suppliers, chemicals and metals are the most impacted sectors, all of which also face a very high level of inventories. Overall, after quarters of steady investment growth, the capacity utilization rate decreased to 84.4% (it was 85.3% one year ago) which indicates that supply-side tensions have eased somewhat, despite recruitment problems in some sectors such as construction. Overall, these latest developments give some traction to our +1.2% GDP growth scenario for 2019.

### Singapore: The canary and the coalmine

The expression "canary in a coal mine" describes an advanced warning of some danger. Because of its location as a trade and financial hub, Singapore's data and policy announcements are often regarded as early indicators of the global economic cycle. Recent releases indicate that we are in a fragile situation. Firstly, the preliminary estimate of Q1 GDP growth showed a deceleration on a yearly basis (+1.3% y/y in Q1 after +1.9% y/y in Q4 2018) due to a contraction in the manufacturing sector (-1.9% y/y). Secondly, monthly indicators suggest that activity remained weak in March. Non-oil domestic exports contracted by -11.7% y/y (after +4.8% in February). Looking ahead, we expect economic growth to come in at +2.3% in full year 2019 (after +3.2% in 2018) thanks to a pick-up in the remainder of the year. Business surveys point to a modest uptick. The manufacturing PMI rose to 50.8 points in March (from 50.4 in February) helped by a rise in domestic and overseas' new orders. Meanwhile, dovish signals are coming from the Central Bank. The MAS announced that it will keep its policy unchanged for the time being, citing lower than expected inflation and a weaker growth outlook.

### U.S.: Consumer rebounds, housing crumbles

Retail sales growth rebounded sharply to +1.6% m/m in March after falling in two of the previous three months. Gains were led by gasoline sales which increased by +3.5% m/m for the second month in a row, a product of rising oil prices. Auto sales were up +2.1% m/m, the first increase in three months. Restaurant sales, which are indicative of discretionary spending, rose +0.8% m/m to a strong +4.3% y/y. After stripping out volatile components, core sales, which are part of GDP, gained +1% m/m to a solid +3.5% y/y. Housing data was not so encouraging. Existing home sales fell for the fourth time in five months, pushing the y/y rate to -5.4%. Starts and permits fell for the second straight month, putting the y/y rates at -14.2% and -6.5%, respectively – a dismal performance. The only bright spot has been that new home sales gained +4.5% m/m, but it was only enough to push the y/y rate (+3%) into positive territory for the first time in seven months. Unfortunately the new home market is only about one-tenth the size of the existing home market.

# Countries in Focus

Americas

## Colombia: Good start of the year

After an annual GDP growth of +2.7% in 2018, Colombia's monthly activity index grew by +2.8% in February, accelerating from +2.4% in January. The pause in the tightening cycle of the U.S. Federal Reserve has helped alleviate pressure on Colombia's exchange rate: after depreciating -8% against the USD in 2018, the COP has appreciated +2.3% in 2019 to date. Stable inflation allows the Central Bank to maintain a low policy rate (4.25%). In this favorable environment, consumer confidence has improved, helping the recovery of consumer credit: after bottoming out in July 2018, it has accelerated again (back to +10% y/y in February). The situation is also improving for companies, albeit less remarkably: we start to see a trend reversal in industrial production. Yet, as the Venezuelan crisis lingers, it impacts Colombia's public finances so that fiscal consolidation will be more gradual than expected. The government relaxed its deficit target to -2.7% of GDP this year from - 2.2% previously.

Europe

## Eurozone: Public finances have improved notably

Thanks to governments' fiscal consolidation efforts, the strong economic recovery as well as the ECB's monetary policy measures pushing down refinancing costs, the Eurozone public deficit has declined from -6.2% of GDP in 2010 to -0.5% in 2018. This is a remarkable improvement. In fact, since the inception of the euro the aggregate public deficit in % of GDP has never been smaller. With the exception of Cyprus, all Eurozone countries managed to respect the -3% Maastricht criterion, with nine member avoiding to run a deficit altogether. The improvement in the debt burden however remains more timid. At 85.1% of GDP in 2018, it has declined from 92% in 2014 but still remains 20pp above the 2007 pre-crisis figure. Worryingly, 12 Eurozone countries are still boasting debt ratios of more than 60% of GDP – with Greece, Italy, Portugal, Cyprus and Belgium even registering above the 100% mark. Going forward, the favorable trend looks set to reverse: As the Eurozone economic momentum has cooled notably in recent months while social discontentment remains on the rise, the focus is on fiscal policy to save the day. We expect the Eurozone deficit to rise to an annual average of -1% of GDP in 2019-2020.

Africa & Middle East

## Iran: U.S. oil export sanctions waivers to end

The U.S. administration announced this week that waivers granted to China, India, Japan, South Korea and Turkey to import Iranian oil despite U.S. sanctions will not be extended beyond 2 May. Despite strong criticism from China, India and Turkey, the countries are likely to comply with the sanctions, at least partly: China as long as trade negotiations with the U.S. continue, and India will not risk a diplomatic breakdown with the U.S.
As a result, Iranian oil exports are expected to fall from an estimated 1.9mn bbl/day (one third of which has been "secret") to the range of 0.4-0.6 bbl/day – not to zero as some trade in local currency and barter trade will continue. Real GDP is now forecast to contract by around -5% in fiscal year 2019.
Meanwhile, the oil price has hit a 2019 high of 74.5 USD/bbl, suggesting that markets doubt that Saudi Arabia and the UAE will fully compensate for the loss of Iranian exports as the U.S. has indicated.

Asia Pacific

## Indonesia: Supported by domestic demand

As for most of the economies in the region, the first four months of 2019 were quite challenging for Indonesia. On the economic front, trade did not fare well. Exports contracted by -10% y/y in March after -11.8% in February. Imports decreased by -6.8% y/y (after -3.8%). However, domestic demand has remained robust (+9.1% y/y for retail sales in February). On the political front, presidential and legislative elections were held on 17 April. Official results are not yet available (likely to be released in May) but polls point to a reelection of incumbent President Joko Widodo (Jokowi). Going forward, business sentiment points to economic expansion in the near term (the manufacturing PMI went up to 51.2 points in March from 50.1 in February) driven by a rise in domestic activity. On the policy front, Jokowi's government is envisaging a stimulus package to boost growth. We expect the Central Bank to loosen monetary policy by the end of this year with a -25bp interest rate cut.


# What to watch

- April 24 – Argentina March trade balance
- April 25 – South Korea Q1 GDP
- April 25 – Turkey Central Bank meeting
- April 25 – Ukraine Central Bank meeting
- April 26 – France Q1 unemployment
- April 26 – Russia Central Bank meeting
- April 29 – Hong Kong March trade figures
- April 30 – Brazil March unemployment rate
- April 30 – EU and Eurozone Q1 GDP (flash estimates)
- April 30 – France Q1 GDP
- April 30 – Germany April inflation (flash estimate)
- April 30 – Hungary Central Bank meeting
- April 30 – Mexico Q1 GDP (flash estimate)
- April 30 – Poland April inflation (flash estimate)
- April 30 – Spain Q1 GDP (flash estimate)



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