

# Weekly Export Risk Outlook

12 September 2019

FIGURE  
OF THE WEEK

+1.4%

Q2 2019 y/y  
GDP growth  
in Australia

## In the Headlines



### World economy: All about that bass

World GDP growth stalled in Q2 2019 at an estimated +2.4% q/q annualized, marking the third quarter in a row below +3% (a sequence last seen in 2015). The August global manufacturing PMI signaled further weakness ahead, making a fourth consecutive quarter below +3% in Q3 a likely scenario (first time since 2011). The main trigger of that weakness was the global merchandise trade recession (three consecutive quarters of decreasing trade flows since Q4 2018) and its deep impact on key exporters' growth in Europe (Germany, Italy), Asia (South Korea, Hong Kong, Singapore) and elsewhere (e.g. Mexico, Morocco). Now that the trade games between the U.S. and China have turned into a trade feud with a higher level of trade tariffs, further adverse effects on growth will be hard to avoid. Many market-based indicators (e.g. long-term yields, ratio of copper to gold prices) suggest low growth for the next quarters to come, with the potential to lengthen the growth fatigue to the whole of 2020, which would make it the longest period of below +3% growth since 1991-1993.



### Eurozone: Big September package and yet more to come

As expected the ECB announced a comprehensive monetary stimulus package at its September meeting consisting of a range of policy instruments including a 10bp cut in the deposit rate to -0.5%, a revamp of its forward guidance – by linking the interest rate outlook to underlying inflation developments – the introduction of a tiered deposit system, more favorable TLTRO III terms and, last but not least, an open-end QE program with monthly purchases of EUR20bn. Despite today's big stimulus package, we expect the ECB to further loosen its monetary policy stance in 2020 in an effort to comply with its inflation target of close to but below 2% in the context of subdued macro prospects in the Eurozone and further policy loosening by the Fed as a response to a U.S. growth soft-patch. In particular we expect the deposit rate to be cut on two more occasions over the course of 2020 to -0.7% while monthly QE purchases could be increased further to EUR30bn as early as April 2020. In order to do so the ECB will be forced to raise the issuer limit from currently 33% to below 50% to ensure implementability of the QE program.



### France: Gravity

In the second quarter of 2019 the French manufacturing sector defied gravity, growing by +1% y/y despite an output contraction in other key Eurozone economies. However, the French momentum was not broad-based and is weakening. In July, car output (-4.1% y/y) as well as transport equipment (-4.3%) decreased. This went in conjunction with more structural setbacks: Food output was -3% below its 2017 peak, as well as plastics (-6.6%) and metals (-6%). Plastics and metals are involved in car and transport equipment supply chains, indicating the depth of concern in several transport sectors (cars and aircrafts in particular). The pressure on food suppliers has a key impact on the agrifood and food retail sectors and is a byproduct of household spending choices: budget constraints arising from food inflation (+3.2% y/y in August) and priorities given to housing and household equipment. Overall, the data shows the deep impact of subdued demand for food and cars on suppliers. Transport equipment is something new and suggests that the currently ongoing deceleration in global growth and trade could last for longer.



### U.S.: Mixed data

The economy added only +130k jobs in August vs. expectations of +160k, and the prior two months were revised down -20k. But government employment rose by the hiring of +25k temporary Census workers, and, as a result, private payrolls gained only +96k, well below the +177k average over the past 12 months. Retail lost -11k jobs and manufacturing gained only +3k jobs. But there was also strength in the report: the unemployment rate remained unchanged at 3.7%; the participation rate rose +0.2pp to 63.2%, tying February for the highest of the expansion period; the labor force rose by a strong +571k; and wages beat expectations, gaining +0.4% m/m. The weakness in manufacturing was also reflected in the ISM manufacturing survey, which slipped below the 50 level into contraction area at 49.1, the lowest level in almost four years. Seven of the ten components fell, and nine are now below 50 for the first time since the recession. But on the positive side, the ISM non-manufacturing survey rebounded by +2.7 points to 56.4, with nine of the ten components above 50.



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# Countries in Focus

## Americas

### Mexico: Draft budget is a perilous balancing act

We draw two lessons from the draft 2020 budget presentation by the government. First, it sticks to fiscal discipline on paper, as it aims at a primary fiscal surplus of +0.7% of GDP, after a target of +1% this year. While slightly boosting spending, it stays right on course, sending a pro-business signal. However, macroeconomic assumptions are too optimistic, as the GDP growth forecast for 2020 ranges between +1.5% and +2.5%. We expect sluggish growth of +1% next year (after +0.4% this year). The fiscal target is hence too ambitious. Second, it illustrates the difficult equilibrium many emerging countries struggle to maintain: the urge to resort to fiscal stimulus as global growth is cooling (and particularly the U.S., Mexico's main trade partner) without the necessary fiscal space and under market scrutiny. In a nutshell, the budget should not be sufficient to fully reassure investors, nor to revitalize a sluggish economy that is caught between domestic political risk and U.S. President Trump's tweets.

### Central and Eastern Europe: Accommodating monetary policy

**Ukraine's** Central Bank lowered its key policy interest rate by 50bp to 16.5% last week as it expects continued disinflation. Headline inflation eased to 8.8% y/y in August. Combined with a stabilized currency (the UAH has gained +11% YTD vs. the USD), this allows for one or two more rate cuts in 2019. Meanwhile, a flash estimate has put Q2 real GDP growth at a strong +4.6% y/y. In **Russia**, the Central Bank cut its key policy rate by 25bp to 7.0% last week as the decline in inflation has continued (4.3% y/y in August, an eight-month low) while the economy is **faltering**. Since the impact of new U.S. financial sanctions on Russia has been modest so far, expect at least one more rate cut by year-end. This week, the Monetary Policy Council (MPC) of **Poland** kept its key policy rate at 1.5%, unchanged since March 2015. CPI inflation edged down to 2.8% y/y in August (flash estimate) from the 81-month high of 2.9% in July, slightly above the MPC's 2.5% target, while core inflation was 2.2% in July. We expect no rate change for the rest of the year as GDP growth is still robust (forecast at +4.1% for all of 2019).

### Tunisia: Lost decade

Tunisia is entering a month full of elections (1<sup>st</sup> round of presidential elections on 15 September, legislative elections on 6 October and, if needed, a 2<sup>nd</sup> round of the presidential poll). The country has lost the plot of its previous position as the main industrial and export hub in North Africa. After growing by an average annual +3.6% in 2001-2010, manufacturing production increased by just +0.4% on average p.a. in 2011-2019. And in H1 2019, GDP growth disappointed again, at +1.2% y/y, which meant there was no growth per capita. Tunisia experienced an industrial recession (-0.6% y/y in Q1, -1.1% in Q2) partly driven by faltering export growth: the USD value of exports fell by -5% y/y year-to-date. More importantly, Tunisia now has to cope with a high level of public debt (forecast at 82% of GDP in 2019), a difficult task in an economy partly financed through public subsidies. One challenge among others, since GDP growth is expected to continue to disappoint with +1.2% for all of 2019.

### Australia: Slowdown

Q2 real GDP growth remained stable at +0.5% q/q. However, in y/y terms it fell to +1.4%, the slowest rate since Q3 2009, from +1.7% y/y in Q1 2019 and +2.7% in 2018 as a whole. The ongoing deceleration has been triggered by a sharp contraction in fixed investment, owing to a protracted downturn in the real estate market (plummeting housing investment) and subdued consumer spending. Meanwhile, the external sector has strengthened, though not enough to counterbalance the slump in domestic demand. Exports of goods and services rose +15.3% y/y in H1 2019 (+13.1% in all of 2018), bolstered by healthy commodity prices as well as continued steady demand from China. Meanwhile, the Reserve Bank of Australia (RBA) lowered its key policy interest rate by 25bp each in June and July to 1.0%. Consumer price inflation increased to 1.6% y/y in Q2 2019 from 1.3% in Q1 but is forecast to remain below the RBA's 2%-3% target range until end-2020. Hence, further monetary easing is possible, in need. We expect full-year GDP growth of +1.6% in 2019 and, as the export boom will fade, +1.0% in 2020.

## Europe



## Africa & Middle East



## Asia Pacific



## What to watch

- September 13 – Poland August inflation (2<sup>nd</sup> estimate)
- September 13 – Turkey July balance of payments
- September 13 – Turkey July industrial production
- September 13 – U.S. August retail sales
- September 16 – Bulgaria August inflation
- September 16 – Croatia August inflation
- September 16 – Kazakhstan August industrial prod.
- September 16 – Russia August industrial production
- September 17 – Poland August industrial production
- September 17 – U.S. August industrial production
- September 18 – Brazil interest rate decision
- September 18 – U.S. Fed policy announcement
- September 18 – Ukraine Q2 GDP (with details)
- September 19 – Argentina Q2 GDP growth
- September 19 – New Zealand Q2 GDP growth

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