

Weekly Export Risk Outlook

18 February 2015

FIGURE
OF THE WEEK

+0.3%

Eurozone q/q
Q4 2014 GDP
growth

In the Headlines



Eurozone: Not too bad at year end 2014

In Q4 2014, GDP growth was +0.3% q/q, giving an annual growth of +0.9% y/y. The main positive came from **Germany**, with GDP increasing by +0.7% q/q (consensus expectations +0.3%). A breakdown of the data is not yet available but we expect private consumption and investment will be the main growth drivers, given a milder-than-expected winter and increased consumer spending in anticipation of the introduction of the minimum wage. We now forecast GDP growth of +1.7% for 2015 (previously +1.3%). In **France**, GDP increased by only +0.1% q/q in Q4 (see below). Similarly, the **Italian** economy is standing still, with no growth in Q4 and a third consecutive year in recession (-0.4% in 2014). Elsewhere, GDP growth remained sluggish in **Belgium** and **Austria** (+0.1% q/q in both), but there was some positive news in **Spain** (+0.7% q/q) and in the **Netherlands** (+0.5%). Some other countries recorded contraction in Q4, notably **Greece**, **Cyprus** and **Finland**, with GDP falling by -0.2% q/q, -0.7% and -0.3%, respectively. EH expects +1.2% GDP growth for the Eurozone in 2015, with Germany (+1.7%) and Spain (+1.9%) the key contributors. The region will benefit from low oil prices, the ECB's Quantitative Easing programme announced last month and a lower EUR. However, downside risks remain, with low inflation (and associated downside pressures on company pricing power), high unemployment, lack of strength in investment appetite and some limited spillover effects from the aggressive recession in Russia (-5.5% in 2015).



Ukraine: Peace, not just money, needed for economic recovery

At talks in Minsk on 12 February, the leaders of Russia, Ukraine, Germany and France agreed a "roadmap to peace in Ukraine", including a ceasefire and providing a degree of autonomy to the separatist-controlled areas in eastern Ukraine through amendments to the Ukraine constitution. However, the agreement is already at risk of meeting the same fate as its predecessor, the failed Minsk deal of September 2014, as continued fierce fighting around the strategic town of Debaltseve threatened the ceasefire in the first days after it came into effect on 15 February. On the economic front, Ukraine reached a preliminary agreement on a new USD17.5 bn IMF bailout programme, bringing the total commitment of the Fund and other resources from the international community to USD32 bn. However, the new programme will also require a restructuring of private sector debt, details of which are still unclear. Recent economic news is negative. The UAH fell -22% against the USD on 6 February as the Central Bank ceased FX auctions because its FX reserves were only USD5.4 bn in January. As of today, the UAH has lost 70% of its value since it was floated a year ago. Real GDP contracted by -15.2% y/y in Q4 2014 (-5.1% in Q3), indicating that full-year GDP contracted by around -6.5% last year. We forecast a similar decline in 2015.



Netherlands: Is the surprise positive enough?

GDP increased by +0.5% q/q in Q4 2014 and by +0.8% for the calendar year. Private consumption increased by +0.4% q/q (+0.2% in Q3) driven by a recovery in the labour market and real wage increases. Public spending continued to fall (-0.5%). Total investment accelerated (+2.7% q/q from +1.8% in Q3), reflecting stronger construction output (+3.7% q/q) given an ongoing housing market recovery, but also positive effects from relatively mild weather. Equipment investment growth remained weak, despite rising capacities, while inventories fell (-0.5%). Net exports contributed +0.4ppps to GDP growth, with exports up by +0.5% q/q (mainly food and chemical products), the slowest growth since end-2013, and imports close to stagnation (+0.1% q/q). We expect GDP growth will reach +1.1% in 2015 and +1.4% in 2016, driven by stronger domestic demand.



France: Hasta la vista, Macronator!

Economic activity continued to be lacklustre in Q4 2014, with GDP growth of only +0.1% q/q. Real GDP increased by +0.4% in 2014, as in 2013 and 2012. A breakdown of Q4 2014 data shows private consumption increased by +0.2% q/q (after +0.3% in Q3), changes in inventories contributed -0.2ppps (+0.3ppps) and gross fixed capital formation again contracted, by -0.5% (-0.6%). Interestingly, exports accelerated markedly (+2.3%), while imports kept on increasing (+1.7%). Net exports contributed positively to overall growth for the first time since 2013. EH forecasts that overall growth will accelerate to +0.9% in 2015, against a backdrop of a more benign macro-economic outlook. On the political front, fearing a lack of a parliamentary majority, the government resorted to Article 49.3 of the constitution - last used nine years ago - to push through the long overdue 'Macron' growth bill (a package of business-friendly reforms). This surprising move signals the government's willingness to push forward with reforms, but also the lack of support from the Left.



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Countries in Focus

Americas

Venezuela: FX system manipulated... again

In an attempt to increase state revenues at a time when oil-related receipts are depleted, the authorities amended some details of the foreign exchange rate system. The new "Marginal Currency System" (Simadi) now allows banks and brokerage houses to sell USD at a free rate and replaces the SICAD 2 system, which assigned USD at a rate set by the Central Bank. The three-tier FX system is maintained: the Simadi; the fixed preferential rate of USD1:VEF6.3 for basic goods; and the SICAD 1 rate for imports, which is currently USD1:VEF12 but which can be increased by the authorities. Two days after the Simadi was introduced, the free exchange rate was USD1:VEF174, giving an implicit devaluation of -70% against the last SICAD 2 rate of USD1:VEF52. All this will fuel already soaring inflation (+64% y/y in December 2014), but it is not likely to boost reserves or to improve availability of basic goods. EH forecasts the recession will deepen this year (GDP will contract by -7.5%, at least).

Europe

Central Europe: Regional growth moderates slightly in Q4

Advance estimates of Q4 2014 real GDP indicate slowing economic momentum in the group of 11 EU members in the CEE region. Regional growth is estimated at +2.3% y/y (+2.7% in Q3). Even so, full-year growth recovered to around +2.6% in 2014 from +1.3% in 2013. **Hungary** was an exception in Q4 and growth was the highest in the region, with investment-led expansion improving to +3.4% y/y, resulting in +3.5% for 2014 as a whole. In **Romania**, growth slowed to +2.6% y/y in Q4 and +2.9% in full-year 2014 as investment declined and exports moderated from an outstandingly strong 2013. Growth in Q4 eased somewhat in **Poland** (+3% y/y), **Slovakia** (+2.4% y/y) and the **Czech Republic** (+1.3% y/y) but full-year 2014 growth accelerated markedly, to +3.3%, +2.4% and +2%, respectively, as a result of a rebound in domestic demand. Euler Hermes forecasts full-year growth in the group of 11 EU members in the CEE region at +2.4% in 2015.

Africa & Middle East

Qatar: It's a gas!

GDP increased by +3.9% q/q and +6% y/y in Q3 2014 (after +5.7% y/y in Q2) reflecting strong growth in the non-hydrocarbons sector. For the full year 2014, GDP is estimated to have expanded by almost +6%, with the hydrocarbons sector (accounting for over 50% of GDP but the bulk of it NGLs rather than crude oil) declining by around -2% but non-hydrocarbons increasing by +11%. Despite the impact of relatively weaker oil prices (a moratorium on new projects in the North Field will continue until prices recover), GDP growth is likely to remain robust because of output growth in the construction and services sectors (boosted by demographic factors) and state spending on infrastructure (including ahead of the FIFA World Cup 2022) and social development projects. Against this background and a strong financial position (FX reserves of USD40 bn and SWF of USD250 bn), we forecast GDP growth of around +6% in 2015 and 2016 and good commercial opportunities.

Asia Pacific

Indonesia: Unexpected interest rate cut

The Central Bank unexpectedly cut the policy interest rate, to 7.5% from 7.75%, and the overnight deposit facility, to 5.5% from 5.75%. This probably reflects improvements in the current account balance (-3% of GDP in 2014 from -3.2% in 2013) and easing inflationary pressures (6.96% in January from 8.36% in December 2014), although growth continues to disappoint (+5% in 2014 from +5.6% in 2013). Indonesia's move comes at a time when other regional Central Banks, including China, Australia, Singapore and India, have surprised financial markets with a more-accommodative monetary policy stance. For Indonesia, the impact is likely to be small in the short term as it will not be sufficient to trigger a strong acceleration in demand. Consequently, we maintain our GDP growth forecast for 2015 of a gradual improvement to +5.6%. Currency risk is limited as interest rates remain high and macro-imbalances (including a current account deficit) are stabilising.

What to watch

- February 19 – France January CPI
- February 19 – U.S. February initial jobless claims
- February 19 – U.S. January leading index
- February 20 – Canada December 2014 retail sales
- February 20 – Eurozone February PMI
- February 20 – UK January retail sales
- February 20 – U.S. February flash manufacturing PMI
- February 20 – Mexico Q4 2014 GDP
- February 20 – U.S. February manufacturing PMI
- February 23 – Nigeria Q4 2014 GDP
- February 23 – U.S. January existing home sales
- February 23 – India 2016 budget
- February 24 – South Africa Q4 2014 GDP
- February 24 – U.S. Case Shiller
- February 25 – Hong Kong Q4 2014 GDP

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