Euler Hermes Economic Research

Weekly Export Risk Outlook

27 March 2019

FIGURE OF THE WEEK

+4.9%

February y/y increase in non-oil exports in Singapore

In the Headlines

Turkey: Renewed turmoil and unorthodox policies

Financial markets in Turkey have faced new turbulences this month ahead of the local elections to be held on 31 March. Foreign exchange (FX) reserves dropped by -7% in the first two weeks of March, the steepest two-week fall since the height of the currency crisis in August 2018. This led to an acceleration of the TRY depreciation, ongoing since end-January, as investors suspected the Central Bank of Turkey (CBT) would use reserves to prop up the currency. The TRY weakened to 5.85 per USD on 22 March before settling at 5.76 (down -5.5% in the day) its worst closing value since last October. The CBT reacted but instead of raising its key policy one-week repo rate, it left that rate unchanged at 24% but suspended its use and began funding at higher rates. This marks a return to the unorthodox “back door” monetary tightening which the CBT had abandoned only last June – a move that will not help improve investor confidence. The latter was further undermined by government threats against bankers and investors over alleged FX meddling. The TRY recovered a little this week but trading remained highly volatile, while the Borsa 100 Istanbul Index kept on falling (-7% in March to date) and bond yields continued to rise. Expect volatility and risks to remain high in the next weeks.

France: The price of uncertainty

In March, the demand tensions that French corporates have been facing widened, with a new deterioration of their order books and a further rise in inventories, two evolutions that may limit future output. It becomes increasingly evident that French corporates are exposed to a combination of risks (Brexit, emission norms in the automotive industry, risk of U.S. tariffs on EU car exports, trade tensions between the U.S. and China) that are affecting them directly or through trade partners (UK, Germany). Despite the fact that some of these risks have not materialized yet, demand is already adjusting. The most affected sectors are carmakers, car suppliers, metals, plastics and the chemicals industry. For carmakers, inventories of finished goods are the highest since February 2009. At the same time, only 13% of French households are considering a potential car purchase within the next 12 months (-2pp from a year ago). It shows their lower appetite for durable goods. As a result, we pencil in a stagnation of car registrations this year (after +3% in 2018).

Germany: Approaching an economic turning point

In March the ifo Business Climate Index rose by +0.9 points to 99.6 points. This was its first increase following six consecutive setbacks. After sharp declines in recent months, in particular firms’ business expectations increased significantly. The improvement in companies’ assessment of the current situation, meanwhile, proved rather muted (+0.2 points). The rise in sentiment was recorded across all major economic sectors with the exception of manufacturing, where companies were less optimistic about both the current situation as well as business prospects. The German economy is approaching an economic turning point. After the near-recession in the second half of 2018 and a very weak start to 2019, economic momentum should pick up again over the coming months despite lingering political uncertainty related to Brexit and trade. After all, the situation in the car sector is stabilizing, the Chinese stimulus should prop up German exports and private consumption is benefiting from the labor market boom and supportive fiscal policy measures. Overall, we expect GDP to grow by +1% in 2019.

Hungary: The start of monetary policy normalization

This week the Monetary Council (MC) of Hungary kept its key policy interest rate (3-month deposit rate; +0.9% since May 2016) again unchanged, however, it raised the overnight deposit rate by 10bp to -0.05%. This may reflect rising inflationary expectations as consumer price inflation increased to 3.1% y/y in February (from 2.7% in January) while core inflation rose to 3.5% (from 3.2% in January) mainly owing to stronger price dynamics of processed food and market services. Both rates are still within the MC’s 3% ± 1pp inflation target range. However, the MC also revealed a new stimulus measure, the launch of a corporate bond purchasing program of HUF300bn (about EUR0.94bn) in July. This should be welcomed, in principle, as it intends to deepen the domestic NFC bond markets. Meanwhile, nominal wage growth (+10.4% y/y in Q4 2018) and nominal private sector credit growth (+10.7% y/y in January 2019) remain among the highest in Central Europe.

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Countries in Focus

Americas

U.S.: Downbeat news

Short term interest rates (yields) have risen higher than long term rates, a condition known as an inverted yield curve. Historically it has been a very strong forecaster that a recession will start in around a year, on average. This is a critical development to monitor closely as it indicates that the Fed may have raised interest rates too much. Consumer confidence took an unexpected -7.4 point plunge in March, driven largely by respondents' assessments of current conditions which fell the most in over 10 years. Assessments of the labor market also fell the most in 10 years, confirming the weak February employment report. The housing market continues to suffer as housing permits fell for the second straight month to -2% y/y while starts fell for the fifth time in six months, losing -8.7% m/m to a -9.9% y/y rate. Existing home sales did make a sharp +11.8% m/m increase, but it was the first in four months and still left the y/y rate at -1.8%.

Europe

Kazakhstan: Preparing a dynastic succession

After holding the presidency since 1990, Nursultan Nazarbayev resigned last week. However, he will almost certainly retain crucial political influence as specific arrangements ensure that he remains the (lifelong) chair of the Security Council, the chair of the ruling Nur Otan party and a member in the Constitutional Council. According to the Constitution, Senate Speaker Tokayev will serve the remainder of Nazarbayev's term until the next presidential election, scheduled for April 2020. Meanwhile, Dariga Nazarbayeva, Nazarbayev's eldest daughter, was elected as the new Senate Speaker, indicating that a dynastic transfer of power is targeted. However, such an outcome is not for sure. There are factions among the ruling elite who might oppose a dynastic succession and an intra-elite power struggle in the run-up to the election cannot be ruled out. Political risk in Kazakhstan thus remains elevated. On the economic front, real GDP growth is forecast to decelerate from +4.1% in 2018 to about +3.3% in 2019 as oil output is likely to decline somewhat this year because several oil fields are scheduled for maintenance. Meanwhile, inflation fell to a 41-month low of 4.8% y/y in February.

Africa & Middle East

Nigeria: This time is (really) different

The second term of President Buhari has begun almost like the first one. The Central Bank eased its policy rate in March 2019, for the first time since November 2015. This surprise move (-50 bps to 13.5%) indicates a more supportive stance as growth more or less vanished in 2015 and has recovered only gradually in 2018 (+1.9%). Inflation currently stands at +11.3% y/y (in February), above what was observed in 2015 (+9%) when the last monetary easing was implemented. However, two things are very different: the import cover of foreign reserves is now eight months (vs. five months in 2015) and the oil price is relatively stable y/y (it was cut by half in 2015). So, there is a low rationale for a disconnect between the official exchange rate and the black market one. Another support to growth should come from oil output, despite OPEC-agreed cuts, as a result of a new field (Egina) which is coming to production this year. As a result, we expect growth to accelerate somewhat to +2.6% in 2019.

Asia Pacific

Singapore: Signs of relief? Not really…

Singapore's non-oil domestic exports rose by +4.9% y/y in February (after a drop of -10.1% in January) mainly driven by China (+34.4% y/y), Hong Kong (+41.9%) and the U.S. (+6.6%). By sector, the recovery was supported by non-electronic products (+9.4% y/y). Manufacturing output edged up by +0.7% y/y (after -0.4% y/y in January). Electronics and precision engineering were the main drags on growth. Going forward, Singaporean trade data are usually seen as good advanced indicators of the global trade cycle. Yet, last month figures should be interpreted with caution as they were probably distorted by the Chinese New Year holidays. Our view is that a real recovery might occur only from Q2 onwards, when the Chinese stimulus starts to have material effects and if China and the U.S. reach a trade agreement. Singapore's GDP is forecast to rise by +2.3% in 2019 (after +3.3% in 2018).

What to watch

- March 28 – Czechia Central Bank meeting
- March 28 – Germany March consumer prices (flash)
- March 29 – Canada January GDP
- March 29 – France February consumer spending
- March 29 – France March consumer prices
- March 29 – Germany February retail sales
- March 29 – Morocco Q4 GDP
- March 29 – U.S. February new home sales
- March 29 – U.S. Feb. personal income and spending
- March 31 – Turkey local elections
- March 31 – Ukraine presidential election
- April 1 – China March Caixin Manufacturing PMI
- April 1 – Russia, Turkey March Manufacturing PMI
- April 1 – U.S. February retail sales
- April 1 – U.S. ISM manufacturing index

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