

# Weekly Export Risk Outlook

24 October 2018

FIGURE  
OF THE WEEK

+6.5%

Q3 2018 y/y  
GDP growth  
in China

## In the Headlines



### China: Q3 GDP on the slow lane

Real economic growth moderated to +6.5% y/y in Q3 from +6.7% in Q2 due to a slowdown in the industrial sector (+5.3% y/y in Q3 after +6% in Q2). The services sector remained robust with growth of +7.9% y/y (after +7.8% in Q2). Monthly activity indicators also pointed to modest growth in industrial production (+5.8% y/y in September) as well as in investment (+5.4% y/y in January-September). On the positive side, retail sales growth remained resilient and edged up to +9.2% y/y (from +9% in August). Following the GDP release, authorities have reaffirmed their commitment to support growth in order to ease financial market fears with additional measures to support the private sector (e.g. tax cuts, support to the financial market). Looking ahead, we maintain our full-year growth forecasts of +6.6% in 2018 and +6.3% in 2019. While we expect domestic demand to provide some resilience as accommodating fiscal (e.g. tax cuts, infrastructure spending) and monetary policies (e.g. cuts in reserve requirement ratios) have begun to have an impact, net trade will likely be less supportive to growth following the implementation of protectionist measures in the U.S.



### Eurozone: Still a positive momentum for corporate credit

The ECB Bank Lending Survey reported a higher-than-expected easing in credit standards for both Eurozone SMEs and large corporates in Q3, excluding France where credit standards remained unchanged as banks are less optimistic on the economic environment. Banks reported that competitive pressure, lower risk perceptions with regard to the economic situation, and borrowers' creditworthiness contributed to the easing. Banks' cost of funds and balance sheet constraints had a neutral effect in all major countries, but banks expect worse market financing conditions in the next six months as the ECB prepares to gradually tighten its monetary policy. Italian banks reported tighter terms and conditions on loans, mainly as there is a widening of margins on riskier loans and less favorable cost of funds. Overall, Eurozone banks expect a further easing in credit conditions in the next three months, albeit to a lower extent. The rise in net demand for loans to corporates continued to rise in Q3, but less than expected. It was driven by the low interest rates, fixed investments, inventories and working capital as well as M&A activity. Banks expect a further increase in net loan demand from corporates in Q4.



### Turkey: Currency crisis begins to impact economic outlook

In October, the Consumer Confidence Index fell further to 57.3 points, its lowest level since December 2008 (after it had dropped to 59.3 in September from 68.3 in August). These values compare to a long-term average of 75.1 since 2004. The latest figure does not bode well for consumer spending and retail sales in Q4. As Turkey's currency crisis became full-fledged in August, calendar-adjusted real retail sales growth already fell to just +1.3% y/y from an average +5.9% in Q2 and +8.9% in Q1. Similarly, calendar-adjusted industrial production growth declined to +1.7% y/y in August from an average +5.2% in Q2 and +10% in Q1. Looking at important industrial sub-sectors, output in August contracted in clothing (-3.4% y/y), pharmaceuticals (-11.1%), fabricated metal products (-5.6%), machinery & equipment (-5.4%) and automotive (-5.2%). It still increased in food (+13.4%), textiles (+1.4%), chemicals (+6.7%), electronics (+12.6%) and electricals (+1.7%). Euler Hermes expects two to three quarters of negative real GDP growth until mid-2019 and full-year growth of +3.3% in 2018 and +0.4% in 2019.



### Angola: The dark matters

In Angola, the recession is worsening. Real GDP shrank by -7.4% y/y in the second quarter. The economy is constrained by a widespread credit crunch since the government delayed payments in order to limit its own liquidity risk (multi-year arrears to local corporates are above USD5bn). As a result, non-performing loans have skyrocketed to 28% of total loans. The difficulties of banks are intertwined with the problems of the government and SOEs (which are the banks' shareholders). Foreign currency liquidity has also weakened, as (i) the import cover of foreign reserves fell to a new low of 4 months in September and (ii) the short-term debt due to reserves ratio increased to 70%. Financing is still trapped in a blind run, using bilateral financing of long-term infrastructure gaps in order to fund short-run liquidity needs instead of more appropriate financing (e.g. an IMF loan). The evidence is that Angola is currently experiencing a hard landing. GDP is forecast to contract by -5% in 2018 (after -2.6% in 2016 and -2.7% in 2017).

# Countries in Focus

## Americas

### U.S.: Housing market struggling

The housing market is struggling with low supply, falling affordability, and mortgage rates which have risen sharply and are now over 5% for the first time in eight years. Existing home sales fell for the sixth straight month to a -4.1% y/y rate, and now stand at the lowest level in almost three years. Prices fell for the third straight month to +4.2% y/y and supply remains very tight at 3.4 months. Hurricane Florence may have affected the results as sales in the South fell -5.4% m/m, but it was the ninth loss in ten months. Housing starts fell -5.3% m/m to a +3.7% y/y rate. Starts may also have been affected by the hurricane as starts in the South fell -13.7% m/m but starts in the Midwest fell even more, losing -14% m/m. Permits fell for the second consecutive month to -1% y/y. Q3 GDP will be released on Friday and is expected to be around +3.5% annualized q/q, but residential investment will clearly be a drag.

### Poland: Gradually slowing down

Seasonally and calendar-adjusted industrial production contracted by -0.7% m/m in September, the first m/m decline since April 2013. In y/y terms, calendar-adjusted industrial production growth edged up to +5.4%, taking output growth in Q3 to +6.1% y/y, which marks a slowdown from +6.8% y/y in Q2. Similarly, seasonally and calendar-adjusted real retail sales decreased by -0.6% m/m in September, after -0.7% m/m in August, taking the y/y growth rate down to +4.9% in September and an average +6.1% in Q3 (the latter followed +7.2% y/y in Q2). Meanwhile, today released business tendency indicators for October point to a weakening business climate in manufacturing (4.8 points, down from 8.8 in September), construction (1.5, down from 4.0) and wholesale trade (8.9, down from 12.8) while an improvement was registered in retail trade (13.6, up from 12.2). Overall, these high frequency indicators suggest that the economic momentum is moderating but remains robust for now. Euler Hermes expects real GDP growth to slow from an average +5.1% y/y in H1 to +4% in H2, resulting in full-year growth of +4.6% in 2018 (after +4.7% in 2017). The tentative forecast for 2019 is +3.5%.

### Ghana: The good pupil

In Ghana, real GDP growth stabilized in Q2 (+5.4% y/y, the same as in Q1), fueled by a steady expansion in the manufacturing sector (+11.1% y/y in Q2). Moreover, recent foreign direct investment trends have shown an increasing attractiveness, with perhaps the highest net inflows in Ghana's history in 2018 (USD4bn), despite an overall decline of FDI in Africa (-20% last year). As a result, Ghana's current account deficit is fully covered by long-term financing. The commodity sector is the main driver, but the willingness to organize a tech & digital regional hub in Ghana (given the low attractiveness of Nigeria) is also driving growing inflows into the country, with a good chance to build a regional trade hub. Ghana should post the third largest export gains in the continent after the implementation of the continental free trade area (exports should grow by +USD52bn by 2030). We expect GDP growth to benefit from this investor-friendly environment, resulting in +5.7% in 2018 and +6% in 2019.

### Singapore: Downturn?

Based on advanced estimates, real GDP growth decelerated to +2.6% y/y in Q3 from +4.1% in Q2, driven by a continued contraction in construction and a slowdown in services. Non-oil domestic exports rose by +8.3% y/y in September (up from +5% in August). Demand was mainly driven by the U.S. (+41.5%) and the EU (+21.6) and sectors that benefited from rising overseas sales such as pharmaceuticals (+67.5%) and chemicals (+5.7%). Domestically, retail sales continued to contract but at a slower pace (-0.4% y/y in September, after -2.7% in August). Looking ahead, we expect full-year GDP growth to decelerate to +2.9% in 2018 and +2.6% in 2019 (from +3.6% in 2017) on the back of slower export growth. PMIs already signal slower expansion in new export orders and heightened tensions between China and the U.S. suggest further downward pressures going forward.

## What to watch

- October 25 – ECB meeting
- October 25 – Germany October ifo business climate
- October 25 – Turkey monetary policy meeting
- October 25 – Turkey October business confidence
- October 25 – Ukraine monetary policy meeting
- October 25 – U.S. September international trade
- October 26 – U.S. Q3 GDP
- October 26 – Russia monetary policy meeting
- October 29 – Belgium Q3 GDP (preliminary estimate)
- October 30 – Eurozone, France and Italy Q3 GDP (preliminary estimates)
- October 30 – U.S. October consumer confidence
- October 31 – China October official PMIs
- October 31 – France October CPI inflation
- October 31 – Spain Q3 GDP (preliminary estimate)

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