



Weekly Export Risk Outlook



21 December 2011

In the Headlines

FIGURE OF THE WEEK: 366,000 >LOWEST US JOBLESS CLAIMS SINCE 2008

▶ US: Labour and housing market data

Weekly jobless claims fell sharply in the last two weeks, to 366,000, the lowest level since May 2008. The four-week moving average is now down 9% yr/yr and the same measure for continuing claims is down 13%. The data offer some degree of encouragement about the labour market. Encouragement can also be found in November housing starts and permits, which were both stronger than expected and are now up 24% and 21% yr/yr, respectively. Those are strong numbers but open to volatility and, in both cases, they are approximately one-third of the levels at the end of 2005. Meanwhile, there are concerns about the nation's finances as Congress failed to agree an extension of the payroll tax cut, despite support from both parties.

▶ Germany: Growth indicators

Growth prospects have deteriorated sharply in recent months as uncertainties relating to the EZ debt crisis have increased the burden on consumers and impaired investor sentiment. This is reflected in several indicators, including the Ifo Business Climate survey, which showed a deterioration of 7% from mid 2011 to October, although there was an improvement of 0.6% in December after stabilisation in November. Industrial orders received recovered significantly in October but this followed a period of decline. Exports were down by 3.6% in October mo/mo. Given the overall risks but the still-favourable economic fundamentals, expect a sharp but temporary slowdown in 2012, with GDP increasing by 0.8%, driven largely by domestic demand, following a 3% expansion in 2011.

▶ North Korea: Death of Kim Jong-il

North Korean state media announced on 19 December that Kim Jong-il, the country's leader, had died of a heart attack two days previously. Further, Kim Jong-il's third son, Kim Jong-un, who was publicly groomed as his father's successor just a year ago, has been described as the "Great Successor" and North Koreans were urged to unite behind him. The news revived global concerns about the leadership transition and related uncertainty over potential geo-political implications—first raised after reports in 2008 that Kim Jong-il had suffered a stroke—as it is unclear if the military will accept the young, politically-inexperienced Kim Jong-un. South Korea has put its military on high alert. However, even in the event of a coup against Kim Jong-un, the likelihood of scenarios that pose an event risk for the South—outbreak of war or regime collapse in the North—remain relatively low in the near-term as the key powers in the region have a strong interest in maintaining stability, including the North's military and China.

▶ OPEC: Output agreement

At its 14 December meeting, OPEC agreed on an oil output "ceiling" of 30 million barrels per day (mbpd) for H1 2012. In effect, this formalises existing production levels as key suppliers, particularly Saudi Arabia, pumped above the previous 24.845mbpd agreement level to make up for lost Libyan (and Syrian) supply and to stabilise prices. The benchmark Brent oil price is currently USD107/b and the average for 2011 is USD111/b (USD80/b in 2010). Expect OPEC to try and maintain prices at around USD100/b but this could be challenging in 2012, with geo-political concerns (potential supply disruptions) and a weak global economic environment (fragile energy demand) capable of exerting considerable volatility in differing directions.

Please note that this is the last WERO of 2011.

The next issue will be on 11 January 2012.

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► **Mediterranean countries & Africa – *Nigeria: 2012 budget***

Last week, President Goodluck Jonathan presented the 2012 budget to the National Assembly and issued a note of caution that fiscal consolidation was required after an expansionary phase in 2009-11. The budget largely follows the contents of the Medium-Term Fiscal Framework (already approved by parliament) and conservatively assumes an oil price of USD70/barrel—2011 budget calculations used USD75/b, against an outcome of USD111/b—and, ambitiously, oil output of 2.48mbpd (2.3mbpd targeted in 2011). The budget also assumes GDP growth and inflation of 7.2% and 9.5%, respectively, in 2012. The official projection is for a fiscal deficit equivalent to 2.77% of GDP in 2012 but, and despite large federal and state expenditures, expect a smaller and manageable deficit of around 1%.



► **Americas – *Jamaica: General elections***

General elections will be held on 29 December, called early by the new, youngest post-independence PM Andrew Holness, who succeeded Bruce Golding as the ruling Jamaica Labour Party (JLP) leader and PM, following the latter's resignation in October this year. Latest opinion polls give the JLP a slight edge over the main opposition People's National Party (PNP), led by Portia Simpson-Miller, although the position of the two parties is finely balanced (within error margins). This is the first time the PNP has fallen behind since 2007 and prior to the change of leadership in the JLP had looked like a comfortable winner of the next election. The selection of Holness as party leader and PM seems to be having the desired effect, shifting momentum towards the JLP at a critical time and perhaps decisively.



► **Asia-Pacific – *Taiwan: Presidential and legislative elections***

Presidential and legislative elections will be held on 14 January 2011. The two main presidential candidates are President Ma Ying-jeou of the Kuomintang (KMT), who is standing for re-election for a second term, and Tsai Ing-wen of the Democratic Progressive Party (DPP), the main opposition party. Opinion polls show the race between the two as very close, with both having around 35% support, followed by James Soong of the PFP (10-11%). A key area on which the two main parties differ is the cross-straits relationship with Mainland China, as the KMT is pro-unification while the DPP is pro-independence, although the issue has had a lower profile in this election than previously, while various alleged scandals have had some prominence. The KMT is expected to remain the largest party in parliament.



► **Europe – *Kazakhstan: Public protests***

Unprecedented deadly clashes between police and an estimated 3,000 oil workers and their supporters erupted in the country's west last weekend as the former cracked down on the latter, who had used Independence Day celebrations to protest against low wages and poor working and living conditions. President Nazarbayev declared a local 20-day state of emergency. While the protests reflect some dissatisfaction with the government and the distribution of oil wealth, a North Africa-style public overthrow of the authoritarian regime seems unlikely in the near-term. For now, the regime appears secure overall and the main risk to political stability is probably concern relating to the president's age (71) and health, as the lack of an obvious chosen successor could result in a disorderly transition of power.

Worth knowing

► **Ireland and Italy**

Ireland: GDP contracted in Q3 by 1.3% qtr/qtr after an increase of 2.1% in Q2, as fixed investment contracted by 20.9%. **Italy:** Q3 GDP contracted by 0.2% qtr/qtr, after expanding by 0.3% in Q2.

► **Ghana**

In its first full year as an oil producer, Ghana exported 23.5mn barrels of crude from its Jubilee field. Three other oilfields are under development and Jubilee also has an estimated 200bn cubic feet of natural gas.

► **Hungary**

The central bank raised its key policy interest rate by 50bps to 7%, effective from today. The second such hike in just three weeks is deemed necessary to counter increased perceptions of risks in the economy and inflationary pressures.

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