

3 July 2012

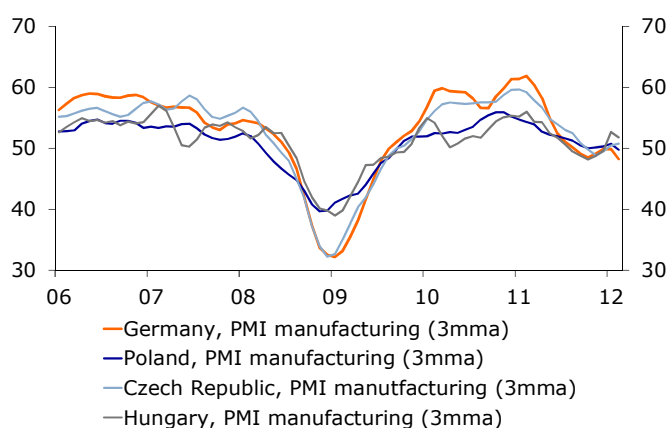
Growth data surprises, while trade data is mixed

	GDP growth			Inflation		
	2011	2012	2013	2011	2012	2013
Brazil	2.7	3.0	4.2	6.6	5.3	5.1
China	9.2	8.3	8.5	5.4	3.7	5.1
India	7.2	6.7	7.3	8.6	7.7	7.4
Indonesia	6.5	5.9	6.5	5.4	5.3	6.5
Mexico	4.0	3.5	4.0	3.4	3.7	3.7
Poland	4.3	2.6	3.5	4.3	3.5	2.8
Russia	4.3	3.5	3.8	8.4	4.8	5.8
South Africa	3.1	2.8	3.7	5.0	5.4	4.3
South Korea	3.6	3.0	4.1	4.0	2.8	3.1
Turkey	8.5	3.5	4.0	6.5	9.5	7.6

Source: Reuters EcoWin

- Manufacturing data in Central and Eastern Europe (CEE) has not fallen as much as in Germany, most likely due to one-off factors.
- In Russia, signs of slowing growth and rising inflation are appearing.
- Argentina's current account deficit has increased in 1Q12.
- The trade deficit of Turkey improved, but remains high, while South Africa's trade balance deteriorated.
- Economic growth data was surprising and disappointing around the globe.

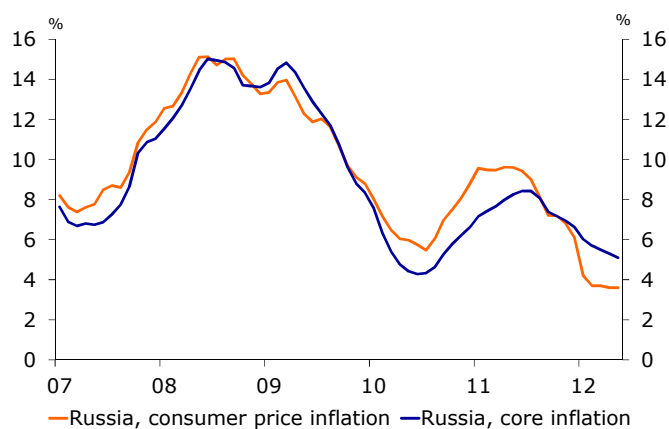
Central Europe – Manufacturing growth slowing



Source: Reuters EcoWin

CEE manufacturing PMIs have recently weakened, but not as fast as in Germany. The divergence in the PMI surveys is surprising, but we do not think that the industry in the CEE have decoupled from Germany. It is likely the result of several one-off factors. In Hungary a new Mercedes plant was opened, which could add up to 1% to GDP, and the impact of a single investment project is large in small economies. Also, typically, the sub-components of the PMI survey move in line with each other. However in April and May, the Polish employment index edged up while the other components fell. Going forward, given the Eurozone crisis, our outlook for CEE's manufacturing PMI's remains negative.

Russia – Inflationary pressures rising?



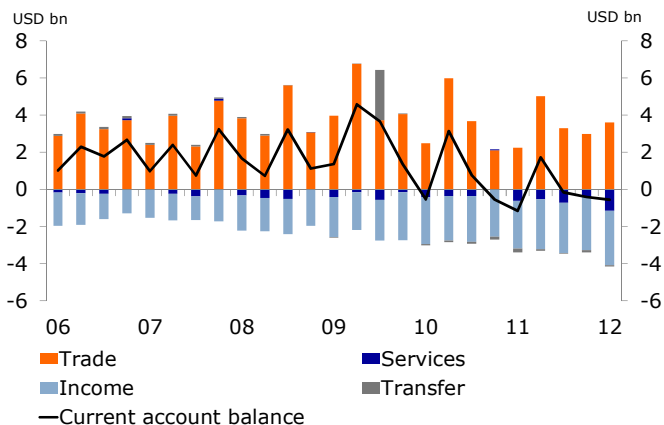
Source: Reuters EcoWin

Although Russia's economy remains in decent shape, we expect slowing growth and rising inflation. Strong domestic demand and falling inflation rates have spurred economic growth throughout the first half of the year. Inflation recorded a low of 3.6% yoy. However, we believe these favorable tides might turn in the near future. Long overdue utility-tariff hikes will come into force this month and will put significant inflationary pressure on households' real income. Also, the recent slide of the ruble puts additional pressure on the price level as costs of imports are rising. As such, it will prove increasingly challenging for the Russian government to sustain robust economic growth in the coming quarters.

Economic Update Emerging Markets

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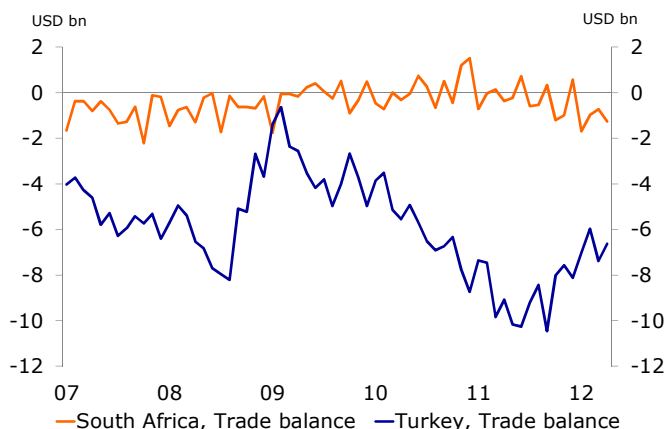
Argentina – The current account deteriorates



Source: Reuters EcoWin

Argentina's current account deficit increased to USD 552m in 1Q12, up from USD 412m in 4Q11. This news came as a surprise, as it was widely expected that all the recent import and foreign exchange controls would result in surplus of roughly USD 500m. While the trade surplus increased from USD 3b to USD 3.6b, this was not enough to cover an increase of the services deficit from USD 0.4b to USD 1.2b. The data show that the controls cannot counter growing macroeconomic imbalances. Since Argentina still does not have access to international capital markets, avoiding a current account deficit matters. Especially, as Argentina now runs a twin deficit, since the budget balance is also in deficit.

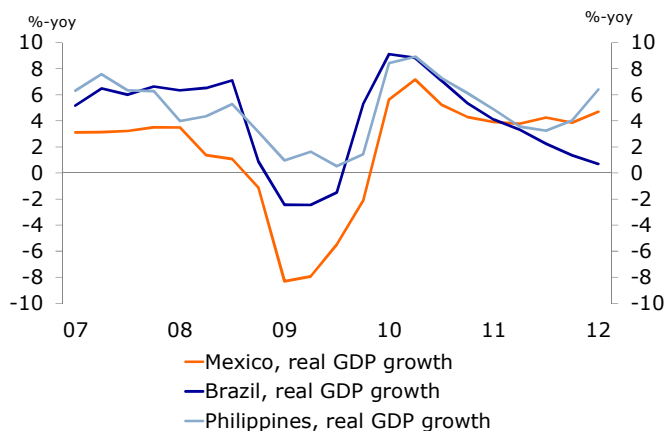
Trade balances – Mixed news



Source: Reuters EcoWin

Good news from Turkey, as its trade deficit decreased in April, due to lower consumer goods imports, which caused total imports of goods to fall by 8% y-o-y. This despite an 11.2% y-o-y increase in energy imports. Meanwhile, exports increased by nearly 7% y-o-y, driven by rising gold exports. Consequently, the trade deficit was 27% smaller than the year before. On the other hand, South Africa's trade balance deteriorated substantially. Exports dropped due to lower external demand. For 2012 as a whole, a further weakening of the trade balance is expected, as the weak global economy is likely to have a negative effect on the prices of South Africa's commodity exports.

Economic growth – Surprising and disappointing



Source: Reuters EcoWin

Both Mexico and the Philippines surprised to the upside with recent growth data. In Mexico, real GDP increased by 0.35% mom in April, after a strong 1.94% mom expansion in the previous month. In yoy-terms, economic growth reached 4.7%. In the Philippines, economic growth in 1Q12 came in at 6.4% yoy, surpassing expectations. Higher government spending combined with strong private consumption resulted in a notable rebound from last year's sluggish performance. However, Brazil's economy grew by a disappointing 0.2% qoq in 1Q12, while analysts had expected a 0.5% increase. On a yoy basis the economy grew by 0.8%, the slowest pace since mid-2009.

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