

Economic Watch

Cross-Country Emerging Markets Analysis

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Economic Analysis

Emerging Economies

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Markets Analysis

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World trade indicators keep momentum despite global uncertainties

- **Finally a piece of good news: World trade momentum improved in Q1 and, for us, the merit lies more on the developed world than emerging markets**

Trade momentum remained in positive territory in March consolidating the recovery in exports markets. Advanced economies improved keeping the positive exports momentum and offsetting the mild moderation in emerging economies (see Chart 1). All advanced economies improved momentum with Japan leading the pickup due to base effects from the disruptions in the supply chain from floods in Thailand (see Chart 2). Among emerging economies, exports momentum moderate in all regions but Latin America (see Chart 3). The largest shift has been recorded in Central and Eastern Europe, (the most exposed to the Euro area). Meanwhile, Africa and Middle East and, to a lesser extent, Asia also decelerated exports dynamism.

- **Freight volume indicators confirm the improvement**

Despite strong month-to-month volatility, both air and a maritime freight volume look bottoming out. The air freight (as reported by IATA) and HK port container throughput show some improvement in smoothed figures, with positive annual changes in April after weakening trend during the second half of last year (see Chart 5).

- **Freight rates halt deterioration and start recovery from minimum levels**

The Baltic Dry Index (bulk freight) continued in May on a positive trend from very low historical figures, while both the VHSS and the Harpex indices (container freight) have stabilized from their previous negative growth rates (see Chart 6).

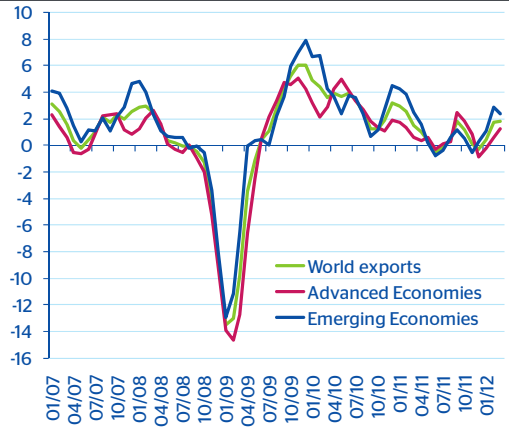
- **World trade Leading indicators are still on the positive side despite huge global uncertainties**

The aggregate New Export Orders PMI component (our preferred world trade leading indicator) has been bouncing up and down during last months, with most of the volatility in the US indicator, as China has only shown some weakness in May and Germany has a more defined positive trend. Thus new export orders and freight volumes point out to some stabilization/mild recovery in the second quarter of this year. (see Chart 4) despite the increasing concerns about the global economy. All in all, it looks as if part of the strong deterioration in the second half of 2011 was partially the result of year base effect after the fast recovery in 2010.

- **Overall lending conditions stopped worsening in Q1 for EMs, while the trade finance segment slightly improved**

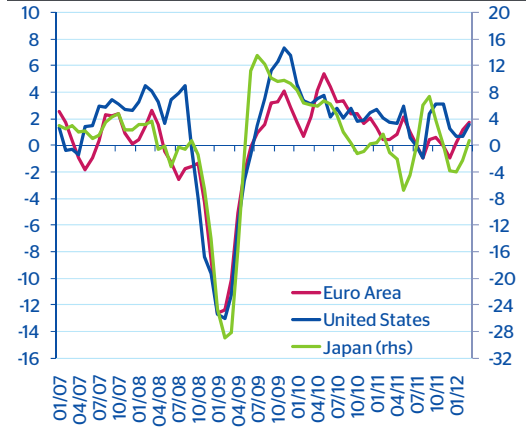
According to the IIF lending condition survey, EM overall funding conditions moved back in Q1 to more neutral conditions after the retrenchment in H2/11, supported by liquidity injections and US funding restoration by international central banks. Trade finance benefited slightly from developments in overall funding conditions in EMs, improving in LatAm and Emerging Europe, but remaining above neutral in all regions (see Charts 7 and 8). However, the recent increase in global risk aversion leads us to maintain a cautious stance.

Chart 1
World exports momentum
3m/3m change in %



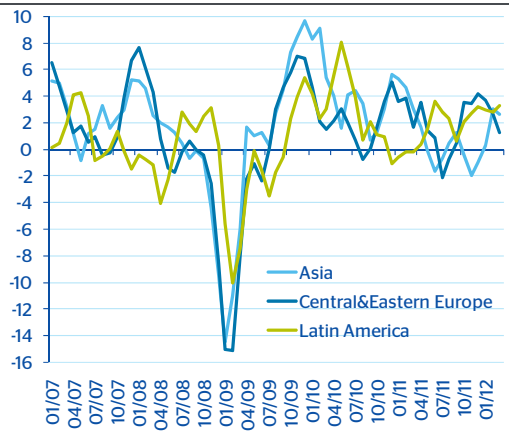
Source: BBVA Research and World Trade Monitor

Chart 2
Exports momentum in developed countries
3m/3m change in %



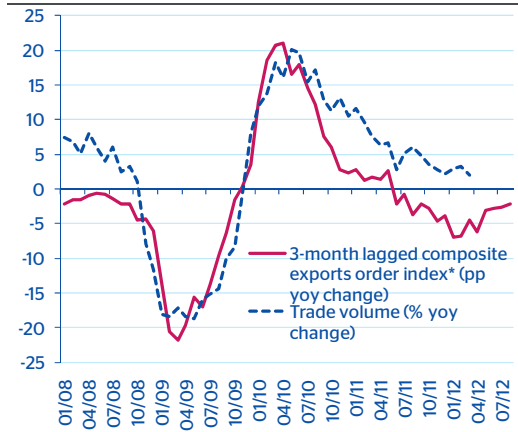
Source: BBVA Research and World Trade Monitor

Chart 3
Exports momentum in emerging countries
3m/3m change in %



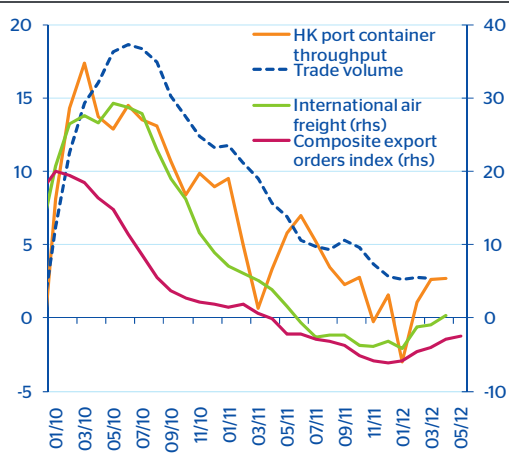
Source: BBVA Research and World Trade Monitor

Chart 4
Trade volume and new export orders index*
Yoy change in % and in percentage points



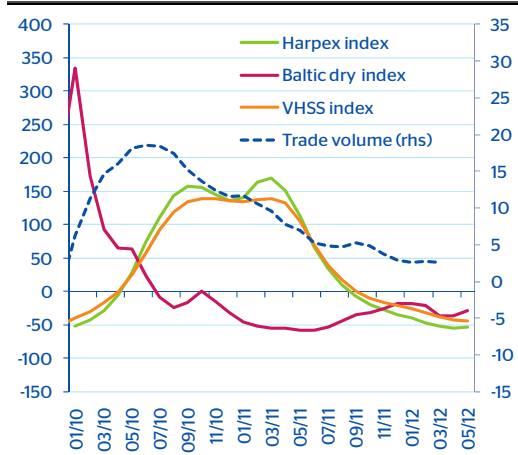
*Trade-weighted average for the US, China and Germany orders
Source: BBVA Research and national manufacturing surveys

Chart 5
Freight volumes and world trade
Yoy change in % and pp (3m moving average)



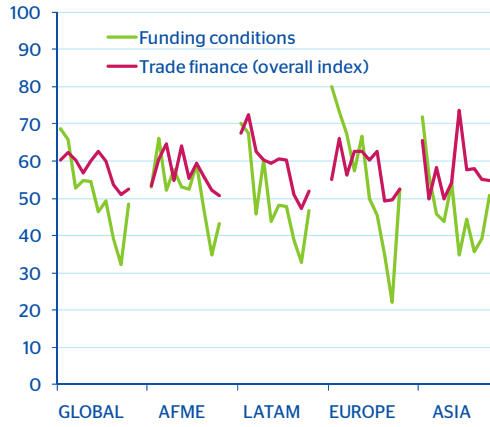
Source: BBVA Research, World Trade Monitor, IATA and HK Marine Department

Chart 6
Freight rates and world trade
Yoy change in % and pp (3m moving average)



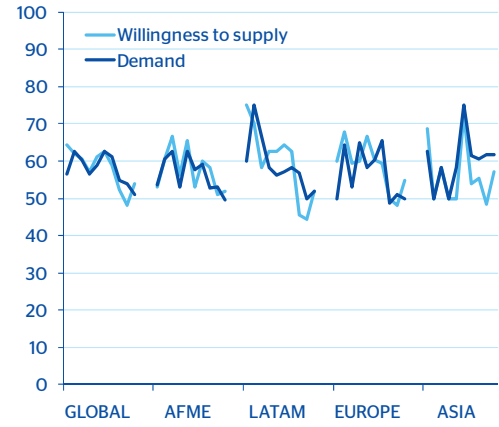
Source: BBVA Research, World Trade Monitor Harper, VHSS and Baltic Exchange

Chart 7
Funding and international trade finance conditions in emerging countries (Q4/09-Q1/12)
Answers in net percentage (0=tightened considerably; 100=eased considerably)



Source: BBVA Research and IIF Emerging Markets Bank Lending Conditions Survey

Chart 8
Supply and demand of trade finance in emerging countries (Q4/09-Q1/12)
Answers in net percentage (0=decreased considerably; 100=increased considerably)



Source: BBVA Research and IIF Emerging Markets Bank Lending Conditions Survey

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