INTRODUCTION

Most of the credit insurers who offer export and global trade credit insurance have their own teams of Economists carrying out research and publishing articles, helping Brokers and Clients understand the risk outlook of the economies around the world. As Brokers for the whole trade credit insurance market, Acumen are in a unique position to have access to all this information and so this Risk Round-Up is designed to bring together the key ideas and information in one document. If you are interested in the greater depth of the original articles from which this information is taken, please contact your Acumen Broker (or call 0845 073 8630) and they will be able to provide this.

FRANCE: FRENCH FOOD SECOTR SUSCEPTIBLE TO INCREASE IN NON-PAYMENT AND INSOLVENCIES

The food industry is centric to the French economy, being one of the five largest exporters of food worldwide, which according to the National Association of Food Industries (ANIA), delivered revenues of EUR 172 billion in 2016, an increase of 1.1% year-on-year. This sector value added growth is anticipated to be up 1.9% in 2018 as it remains resilient on the whole and benefits from steady, consistent growth in consumption.

There are a number of factors bearing down which could result in the domestic revenue of 75% being eroded. Production costs due to high labour fees and tax (compared with neighbouring countries), fierce competition, and contractual price-adjustments means the French food producers are ‘ripe’ for foreign competition.

Commodity price unpredictability in 2016/17 saw pork prices grow 22% in 2016, salmon rocket 60% and butter prices went through the roof. This ultimately lead to a tension for food producers negotiating the delicate balance between farmers stipulating more money and retailers who were not prepared to increase purchase prices.

2018, though predicted to grow 1.9%, it is expected the trading conditions will remain testing as volatility of commodity prices continues to be an influence along with competition from other EU countries and other factors. This could result in an increase in non-payments and insolvencies of food manufacturers in the coming months with the meat processors being particularly venerable.

Underwriters increase in restriction in 2017 and a large bankruptcy in the meat sector has all contributed to the downgrade of the French food sector to ‘Fair’ from ‘Good’.

Source: Atradius: Market Monitor Food France 2017

WORLDWIDE: EMERGING MARKETS ON THE RISE IN 2018

A number of emerging markets have been identified as promising in 2018 including Columbia, Costa Rica, the Czec Republic, India, Indonesia, Morocco, Panama, Senegal and Vietnam.

So why are these markets gaining momentum? There are a number of factors which are coming into play and contributing to their vigour including domestically driven growth, supportive policies and favourable demographics. Often these markets have young growing populations where the ‘middle class’ increase is advancing consumption which in turn is leading to a lift in demand

and therefore demand for investment as well as imports. Asian economies such as India, Indonesia and Vietnam are benefiting from improvements in the macroeconomic policy making and all are experiencing GDP growth through private consumption and fixed investment along with a flexible exchange rate which is reducing the downside risk of global movements. Trend statistics show the aggregated economic growth in emerging market economies (EMEs) grow from 3.6% in to 2016 to 4.4% in 2017 with expectations this trend will continue in 2018 with a predicted growth of 4.7%.

The sectors which are achieving the most in these markets are agriculture and food, Automotive, chemicals and plastics, infrastructure, machines and engineering, pharmaceuticals and retail, consumer durables and electronics. India, Senegal, Panama and Costa Rica have been highlighted for performance in infrastructure. Panama's government has a number of large scale infrastructure projects on the go supported by a low-risk project environment lends itself to a positive outlook whilst a government drive in India for roads, railways and power is increasing demand in this sector. Government-led infrastructure and electricity improvements in Indonesia are facilitating the predicted growth of the machinery sector between 5% and 7%.

The Czech Republic's automotive industry continues to benefit from the European Union's robust economic outlook; sales are healthy with payment terms and margins steady. Morocco also is in line to benefit from increased EU exports in 2018. With its increase in demand for luxury cars Vietnam is an important market and with the shortage of local suppliers, a higher requirement for car parts to maintain the. Growth of passenger car sales is expected in 2018 following the removal of tariffs on vehicle imports from ASEAN member states.

Source: Atradius Economic Research – January 2018

THAILAND: AN IMPROVING ECONOMIC POSITION INLIGHT OF POLITICAL UNEASE

There are a number of factors influencing Thailand's commercial and political risk position according to the country risk assessment by specialist credit insurers Credendo Group.

Following the military coupe of May 2014, the country has experienced political stability which is predicted to be maintained after the next general elections. However there are some undercurrents which have not yet been stemmed which may have consequences, counter balancing the strong macroeconomic fundamentals, sustainable external debt and sound public finances in the medium to long term (MLT).

Firstly the new Constitution has weakened democracy with the implementation of approved text following a referendum in August 2016, which gave the military broader powers in the political system. Secondly, the significant loss of King Bhumibol Adulyadej in October 2016 with his son Prince Vjiralongkorn taking up the reins. The Prince has proceeded, early in his reign, to demonstrate his power by requesting constitutional amendments in a bid to correct the power sharing equilibrium with the army. In addition, as the military junta did not resolved social polarisation, much needed reforms were not implemented or achieve reconciliation the underlying political unrest could be stimulated.

Strong tourism receipts, higher public infrastructure investments (the ongoing 8 year Infrastructure Development Plan (2015-2022)), strong liquidity and improved exports have enabled the Thai economy to exhibit noticeable progress. Manufactured exports which represent 77% of total goods exported, benefited from increased US and EU demand playing a significant part in the raise in GDP growth to an expected 3.7%. The strength of the country's banking sector, higher public spending, along with economic resilience, through macroeconomic fundamentals, has lead to a positive outward position for Thailand. Credendo upgraded Thailand's short-term political risk rating to 2 out of 7 as a result of the jump in foreign exchange reserves and assigned the lowest risk category (A) for systemic commercial risk (on an A-C risk scale). Positive forecasts for growth in private investments will see it not only return to previous levels but is predicted to be higher in the MLT, spurred on from the effects of the strategic government investment plan.

Thailand's economic openness is potentially venerable to external shocks. Potential jolts on the horizon are; the prospect of a raise in protectionism by US President, Donald Trump, weaker foreign demand in the uncertain global context as well as influence from the Fed's monetary normalisation on the internationally integrated Thai economy.

The up coming elections and how the various political bodies jostle for position and power will continue to put pressure on the country's status, however Credendo's MLT political risk level remains low with a score of 3 out of 7.

Export and political risk credit insurance cover continues to provide security to businesses trading with Thailand.

Source: Credendo Group Country Risk Assessment – Thailand Risk Insight – January 2018

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