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.

US & CHINA: CHEMICALS SECTOR FOCUS

Recent years have seen a solid performance from the chemicals sector across the globe with robust business financials, good payment records and relatively low insolvency rates when compared with other sectors. In their recent Market Monitor, Atradius still expect fairly good performances but warn of tougher times ahead. Their publication covers the outlook of the chemicals sector in China, Italy, US, Brazil, France, Germany, Japan, Singapore, Spain and UK, please contact us for a copy of the full report.

The automotive industry is facing major (well documented) challenges in the coming years and many key markets are suffering from declining sales. This is already triggering a drop in demand for chemicals and the plastics subsector is under particular threat as increased environmental awareness and stricter regulations are leading to an inevitable ban of single-use plastics in some major economies. The chemicals sector is cyclical and highly dependant on global economic performance, and growth in world trade stagnated in Q1 2019 and is expected to slow to 2.0% for 2019 amid escalating tariffs and ongoing uncertainty. China is the largest chemicals consumer in the world and the US is an increasingly important chemicals exporter, hence if the current tariff war continues to escalate, global chemicals prices will be negatively impacted as will demand from key markets.

The chemical industry in China has only seen limited repercussions of the Sino-US trade dispute so far. The chemicals export volume accounts for around 10% of sector output in China so as chemical deliveries to the US are low in both value and volume, the direct effect of US import tariffs is quite limited. However, for suppliers of chemicals to Chinese export-driven industries such as toys and textiles, the impact is much worse and these industries are deeply impacted by US punitive tariffs. Whilst no major increase in business insolvencies is expected in 2019, Atradius have stated that they cannot rule out the possibility of several US-export dependent SMEs failing if the trade dispute continues or escalates. Furthermore, supply side reforms and stricter environmental policies will continue to force weaker and inept businesses out of the market.

The US chemicals sector continued to perform well in 2018, benefitting from an abundant supply of cheap energy and feedstock. The recent corporate tax reform also led to an influx of cash which is repaying company debt, fuelling new business development and boosting investment in US-based projects. The industry is expected to record a USD 38 billion trade surplus in 2019 as exports increase 10% and imports increase 7.8%, it is expected to reach a USD 69 billion surplus by 2023. However, the ongoing Sino-US trade dispute has seen tariffs already being imposed on many plastic and chemical products and the sector has been affected by the increased cost of materials imported from China as well as by Chinese tariffs on US exports. US chemical exports to China went from double digit increases in 2016 and 2017 to just 2.7% in 2018. Should the trade dispute continue, petrochemical companies could find the market rather difficult with rising global supply and falling prices. Thanks to low prices of natural gas, US chemical companies are still making profits however they may need to start selling to a more competitive global market to offset the lack of demand in China.

Source: Atradius Market Monitor: "Focus on chemicals/pharmaceuticals performance and outlook" July 2019

PAPUA NEW GUINEA: GRADUAL REBOUND IN GROWTH EXPECTED FOR 2019 FOLLOWING APPOINTMENT OF NEW PRIME MINISTER

Former Finance Minister James Marape was elected by MPs in late May to become the next Prime Minster following the resignation of Prime Minister O'Neill who was facing an expected vote of no confidence. O'Neill won the 2012 and 2017 elections but due to accusations of corruption or mismanagement, his position was often under threat. This lead to shifting support from within his government coalition.

Marape won the vote with an overwhelming 101 to 8 and his appointment could allow a return to political stability until the 2022 elections. The new PM even has support from the opposition and he has made it clear that his government policy will aim to get a more balanced share of commodity revenues in favour of the population, landowners and the state. The weak redistribution of commodity revenues has indeed been a recurrent source of social instability in Papua New Guinea.

This change in government has come at time of a gradually rebounding economy. A severe earthquake in 2018 brought the economy to a standstill with no real GDP growth, however the IMF expects a growth of 3.8% for 2019. Papua New Guinea's economy is resource dependent so the currently weaker commodity prices has also slowed GDP growth. Medium to long term growth potential is looking more positive as several projects that will raise both government and export revenues are in the pipeline, including a number of mining projects and production of liquefied natural gas (LNG) which is the first source of foreign currency receipts.

In terms of downside risks, the main risks to the outlook are related to the completion of commodity projects and commodity price evolution. Marape intends to review resource laws and upcoming projects which could lead to delays in LPG projects and harm investor confidence further (following high corruption, heavy bureaucracy and erratic legal protection). Foreign exchange rationing has long been an issue but the foreign currency backlog for importers has been significantly curtailed over the past year and further improvement is expected. The external debt in Papua New Guinea is elevated and exposed to a strong USD and tighter financing conditions. However, external debt stress is expected to lessen over the next year as US monetary policy should ease and external private debt should decrease as private loans are being repaid by resource receipts. Papua New Guinea also successfully issued their first ever USD 500m sovereign bond in September 2018. Hence the change in government is unlikely to have an impact on Credendo's political risk rating in the short term.

Source: Credendo Risk Monthly "Papua New Guinea: New PM committed to a more redistributive pro foreign investment policy" 3rd July 2019.

AFRICA: POLITICAL RISKS OVERVIEW

Conflicts of varying nature and intensity have regularly afflicted countries on the African continent which has caused a decline in investment and trade flows, resulting in a delay in the development of some of these countries. According to Coface's indicators of political violence, there has been a recent resurgence of violent events involving conflicts linked to Islamist groups in the Sahel region and conflicts of political origin which can also be intertwined with ethnic, religious and linguistic considerations. Both the number of conflicts and the number of victims doubled in 2018 when compared to 10 years earlier. The number of deaths exceeded 70,000 per year for the third time in 30 years.

The Coface political and social fragility index indicates that 10 African countries could be or continue to be shaken by political turmoil. These are Angola, Cameroon, Chad, Djibouti, Egypt, Ethiopia, Mauritania, Mozambique, Uganda and the Democratic Republic of the Congo. One of the factors behind the increased political risk is the increase in mobilisation instruments (internet access, demographic pressure, etc.) which can cause unrest among populations fuelled by socio-economic pressures, in particular unemployment and endemic poverty. This also can be a potential source of destabilisation in other countries in the longer-term. Furthermore, while democracy has become widespread across Africa since the early 1990s, it is not necessarily accompanied by a solid political and institutional framework. Recent examples of this are the Democratic Republic of the Congo, Sudan and Algeria.

Source: Coface Press Release "Coface's political risks overview: the temperature is rising on the African continent." 4th July 2019.

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