

Economic Watch

Cross-Country Emerging Markets Analysis

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Markets Analysis

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Trade decelerating rapidly but not a trade finance collapse so far

- **World trade recovered momentum in September driven by advanced economies...**

Although well below figures for 1Q/11, September data recorded a positive qoq change in World trade (trade momentum) (see Chart 1). Improvement was driven by advanced economies, with the largest export momentum since August 2008. The US led the positive signal, while recovery was milder in the Euro Area. Export momentum was also positive in September in emerging countries, following improvement in August (see Chart 2). Asia outperforms, confirming recovery since July, while Latin America shows a negative trend in 3Q/11, although it's still in positive momentum. Finally, the Central and Eastern Europe region, in spite of improvement, remains with the most negative outlook.

- **...but new export orders continue to decline**

The export orders index in manufacturing confidence indicators shows a negative trend since spring for the main World economies, close to the contractionary threshold, anticipating further slowdown of trade in the next two quarters (see Charts 3&4). Thus, leading indicators are consistent with a negative trend in growth in the coming future but signs of a sharp reversal due to a potential trade finance collapse are still not present.

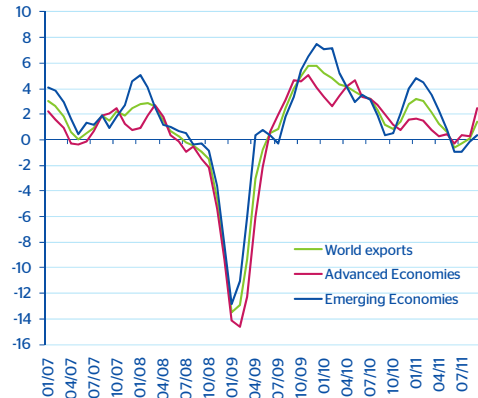
- **High frequency cargo volume data signals further weakening ...**

Other volume high frequency indicators confirm the negative outlook for trade. Total air freight traffic, computed by IATA, showed a yoy contraction of 4.8% in October, confirming negative figures recorded since May and accelerates the negative trend (see Chart 5). Maritime container volumes registered in Hong Kong port continue to decelerate. The 3-month moving average stabilised in October at 1.6% yoy, well below the average for the April-August period.

- **...and the most recent data based on shipping signals a contraction**

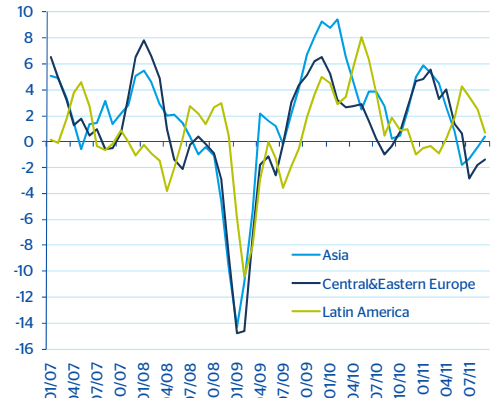
The most negative performance is recorded in shipping rates indicators (prices). The Baltic Dry Index (for dry bulk commodities, including coal, grain, iron ore, finished steel and other metals and minerals) decreased by a 20.7% yoy in November and remains close to the lowest levels for the last years after plunging since spring 2010 (see Chart 6). The Harpex Index (that includes average rates for vessels with container cargo) contracted by 27.0% yoy in November. We incorporate in this update the VHSS Index, which includes container ship time charter rates from member brokers in Hamburg, Copenhagen, London and Paris. The Index shows a strong correlation with the Harpex Index and it decreased by 20.8% yoy in November.

Chart 1
Volume of exports momentum
Quarterly change in 3-month average (%)
World and aggregates



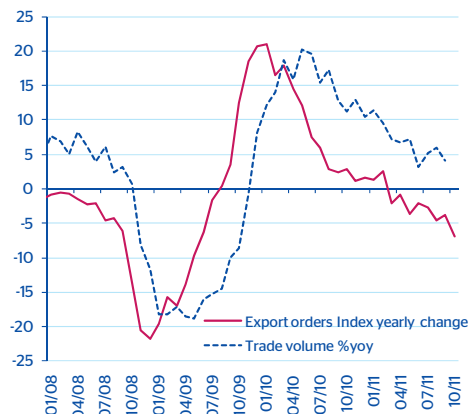
Source: BBVA Research and World Trade Monitor

Chart 2
Volume of exports momentum
Quarterly change in 3-month average (%)
Emerging countries



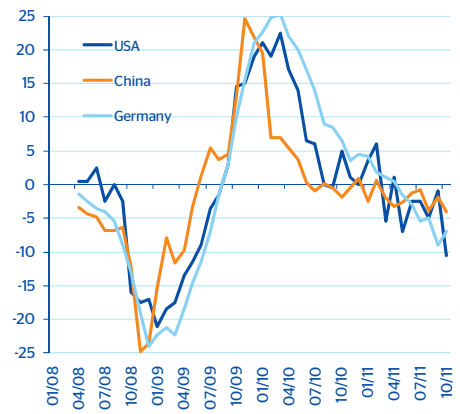
Source: BBVA Research and World Trade Monitor

Chart 3
Trade volume and new export orders index*
Yoy change in % and percentage points



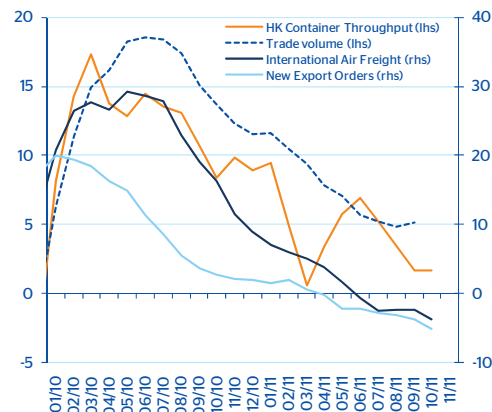
*Trade-weighted average for the US, China and Germany orders
Source: BBVA Research and national manufacturing surveys

Chart 4
New export orders index
Yoy change in percentage points



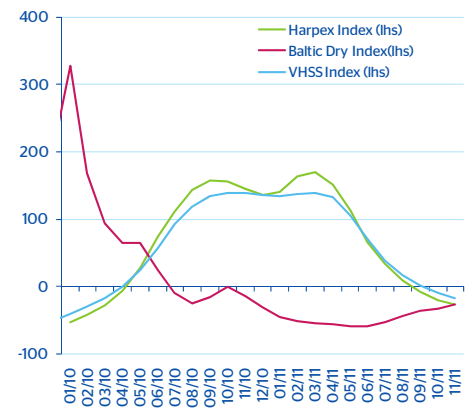
Source: BBVA Research and national manufacturing surveys

Chart 5
Freight volumes and exports
Yoy change in % and pp (3-month average)



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

Chart 6
Shipping rates and exports
Yoy change in % (3-month average)



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

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