

Economic Watch

Cross-Country Emerging Markets Analysis

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Economic Analysis

Emerging Economies

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Are fears of a sudden collapse in world trade exaggerated?

- **World trade is losing momentum since 2Q-2011**

After recovering pre-crisis levels at the beginning of 2010, world exports kept a positive trend until the first half of 2011. Since then, world trade has come to a halt and is loosening momentum. This coincides with the intensification of the sovereign crisis in Europe and global risk aversion in world financial markets.

- **World export performance is being uneven**

Despite the general loosening in momentum, world trade regional performance has been quite uneven. The worsening in export performance is being more intense in developed markets (USA and Europe) and some of the emerging markets, namely Eastern Europe and Emerging Asia. Latin America, instead, has remained quite resilient.

- **Some of the high frequency trade indicators confirms a negative outlook**

Data for freight indicators confirm this negative trend. International air freight volume from IATA is more conclusive and is falling by a 3-4% yoy since May. This contrasts with air passenger traffic which remains positive. Maritime freight indexes show a negative outlook. Both, the Baltic Dry Index (related to dry bulk commodities such as coal, iron ore and grain) and the Harpex Index (commercial goods) declined by a 20% yoy in October. However, they show different trends during the first half of 2011 probably due to different performance in supply factors in the two segments.

- **Tightening in international funding conditions**

So far, conditions for international trade finance have not been dramatically affected by economic and financial uncertainties. This contrasts with a general tightening in international funding conditions (especially in Europe and Asia) according with the latest IIF Emerging Markets Bank Lending Conditions Survey. A further deterioration in international funding and trade finance conditions could affect to world trade

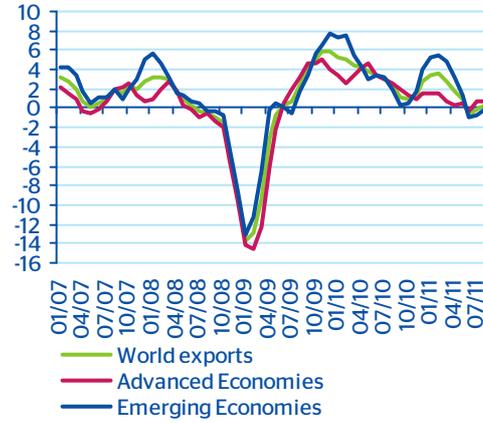
- **Trade collapse is possible if certain events are not averted**

Available indicators confirm that World trade is being negatively affected by the downside risks on international economy, but they are not anticipating a collapse like in the Lehman episode. However, we cannot rule out this possibility if the European crisis intensifies even further and banks cut on trade finance as a consequence of bank constraints.

- **Changes proposals in regulation (Basel III) are penalizing trade finance**

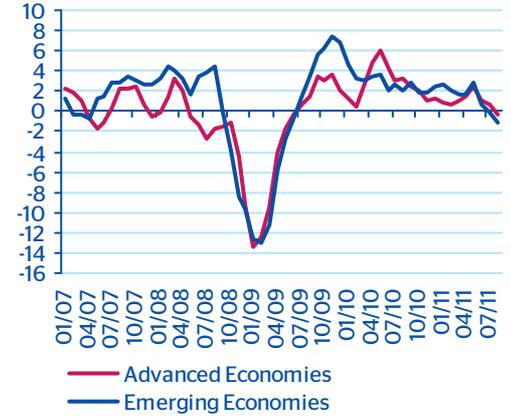
Basel III is considering increasing capital requirements for trade finance activities by increasing the Credit Conversion Factor. This treatment is not consistent with the low risk nature of trade finance. The consequences in the futures if the proposals are approved, are going to be an increase in costs and also a likely reduction in supply of trade finance lending having a permanent negative impact over trading activity.

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



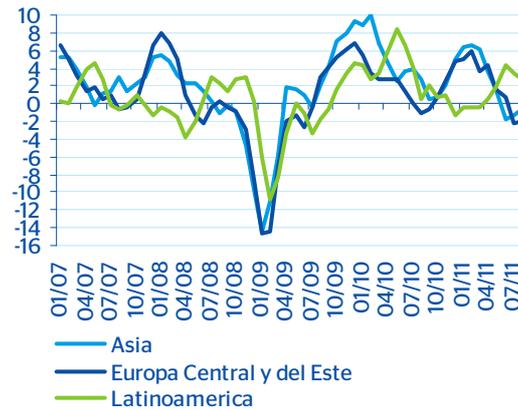
Source: BBVA Research and World Trade Monitor

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



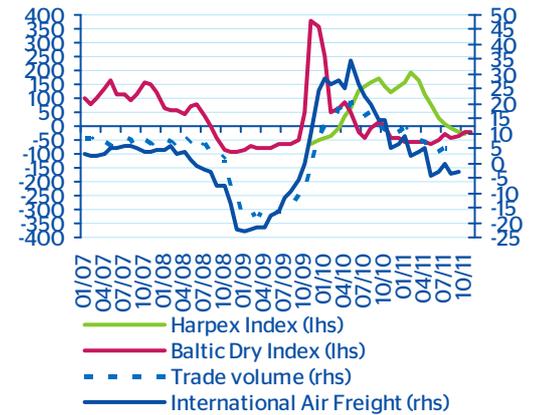
Source: BBVA Research and World Trade Monitor

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



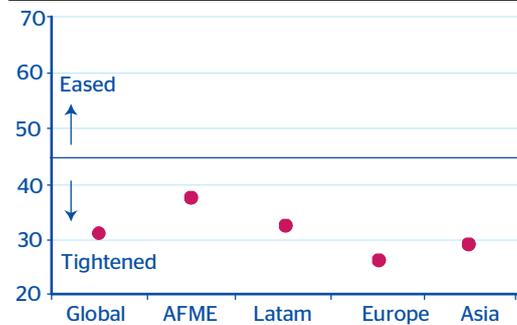
Source: BBVA Research and World Trade Monitor

Chart 4
Freight indicators and world trade volume
YoY change in %



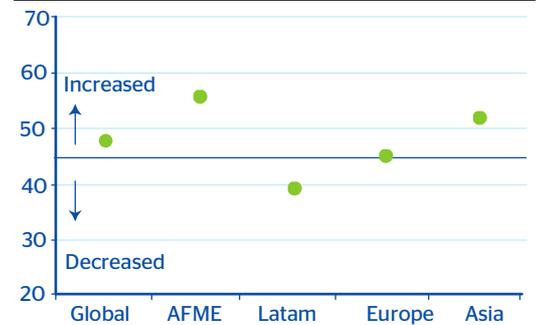
Source: BBVA Research, World Trade Monitor, IATA, Harper and Baltic Exch.

Chart 5
Funding conditions in international markets
Change in 3Q11 (net answers in pp)



Source: IIF

Chart 6
Willingness to supply international trade finance
Change in 3Q11 (net answers in pp)



Source: IIF

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