
## 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.

## UK: BRITISH STEEL SECTOR CONDITIONS IMPROVING BUT BREXIT COULD UNDO RECENT REBOUND

Since 2016 the global steel industry has started to recover following a period of subdued demand. Both global steel use and steel prices increased again in 2016 which has improved the previously depressed margins of many steel companies. Worldwide apparent steel usage is forecast to increase by 2.6% and 1.6% in 2017 and 2018 according to the World Steel Association (WSA), owing largely to better economic performance in both advanced and developing economies.

For the British steel and metals industry in particular, 2015 and early 2016 saw many challenges including overcapacity, exchange rate volatility, fierce competition, increased energy costs, on-going austerity measures and uncertainty over the Brexit referendum. Steel prices remained low and these conditions weighed heavily on many British businesses leading to poor performance and weak financial strength.

Later in 2016 however, China curtailed its steel exports and the EU imposed import duties on Chinese steel causing the prices of steel and metals to rebound. Demand from key buyer sectors such as the automotive and construction sectors has also been robust which combined with the rising sales prices has meant business margins have improved. However, according to the World Steel Association, British steel production decreased slightly, by 1.4% year-on-year, between January and August 2017.

Looking forward, whilst UK business insolvencies are expected to increase 2% and 4% in 2017 and 2018, the steel and metals sector is not expected to follow this trend. With the recent improvements in business margins and demand, global credit insurance underwriters Atradius have upgraded their steel and metals sector outlook from "Poor" to "Fair". Brexit, however, could negatively affect the sector in the mid-term. The economic uncertainty brought on by the UK's looming exit of the EU could trigger both delays and cancellations of investment decisions, particularly in the construction sector. At the same time, 70% of British steel exports are currently going to the EU, so any introduction of new tariffs on imported metals and steel could hurt the steel sector.

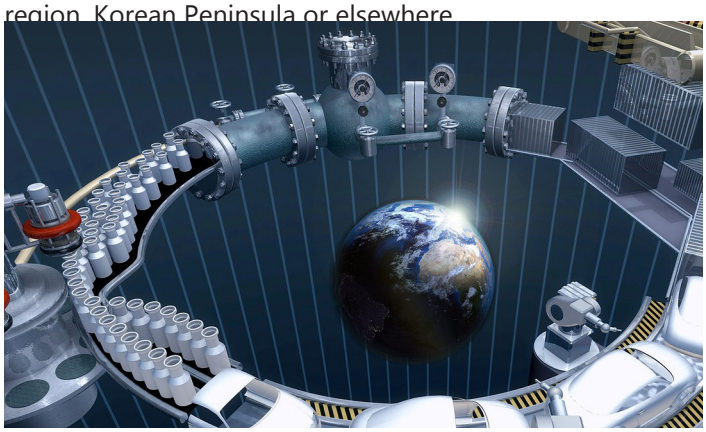
Source: Atradius Market Monitor "Focus on steel and metals performance and outlook" November 2017.

## WORLDWIDE: GLOBAL TRADE OUTLOOK

This month, global credit insurance underwriters Euler Hermes published a comprehensive economic report discussing the outlook for global trade for 2017 and 2018. As usual, if you would like a copy of the full report please contact us on 0845 073 8630, otherwise we will summarise the main points here.

Euler Hermes forecast the volume of global trade to increase by +4.3% and +3.9% in 2017 and 2018 respectively. In terms of value, this is an increase of +7.5% and +6.3%. 2014-16 saw two disappointing years, during which global trade lost nearly USD3tn owing mainly to demand shocks and a collapse in commodity prices. However with a significant rise in prices, this trend is expected to reverse in 2017 and these massive losses should be fully recovered by the end of 2018.

Whilst this forecast global trade growth is welcome news, the forthcoming estimated growth is still at half the pre-crisis pace and Euler Hermes have identified three issues that hamper the acceleration. Firstly, the number of protectionist measures is high and still rising with more than 400 new measures expected this year. Secondly, financial balkanisation remains a cause for concern and Euler is estimating an annual trade financing gap USD1.5tn. Finally, increasing geopolitical tensions are posing a risk to trade flows, whether in the GCC region, Korean Peninsula or elsewhere.



Going forward, Euler Hermes see three positive boosters for global trade. Firstly, they estimate investment flows to grow by +3% in 2018 which will be supported by stronger corporate balance sheets and a record USD7tn of cash on balance for 2017. Secondly, smart industrial policies such as large infrastructure projects like China's Belt and Road Initiative will help to boost global trade too. Finally, services and digitalisation could help to drive a new 'golden age' for trade. This, combined with innovative solutions for safer and stronger supply chains, will help to further boost the growth in global trade.

Source: Euler Hermes Economic Outlook no. 1239 - November 2017 "Game of Trade: Unbowed, Unbent, Unbroken?".

## SUDAN: ECONOMIC OUTLOOK REMAINS POOR DESPITE LIFTING OF US SANCTIONS

The US first imposed a number of economic sanctions on Sudan in 1997 which, after being temporarily relaxed by the Obama administration, have been permanently revoked as of October 2017. This is thanks to Sudan's cooperation in combating terrorism and its reduction of military activity in Dafur and against South Sudan. However, US sanctions related to Dafur will remain in place and the country remains on the US's list of countries that they consider to be state sponsors of terrorism.

There has been a modest improvement in the economic situation in Sudan in recent years. For example, average inflation has fallen from 36.5% in 2012 to 17.8% in 2016 and growth reached 3% in 2016 compared to 2012 when the economy was in recession. The government has also made attempts to diversify the economy and has implemented a number of economic reforms such as the reduction of fuel subsidies. The lifting of the US sanctions is expected to lead to increased levels of trade and investment, however, vast challenges for Sudan's economy remain.

Firstly, the country lost 75% of its oil reserves in 2011 due to the split with South Sudan but the fiscal measures taken by the government cannot compensate for the loss of oil income. Secondly, inflation remains high given that the central bank has helped to finance the large remaining energy subsidies. Also, the exchange rate remains strongly overvalued. Another challenge is that the very limited foreign-exchange reserves held by the central bank indicate a major shortage of foreign currency. This is no surprise as foreign exchange reserves have been under pressure for quite some time owing to the structural current account deficit combined with low FDI and not being able to borrow externally. Finally, the majority of the external debt stock remains in arrears and there is no indication that Sudan is able or willing to pay its external debt back, which the IMF has marked as unsustainable. As a result, Sudan is eligible for debt relief under the Heavily Indebted Poor Countries (HIPC) initiative but is yet to meet the requirements. These include having to repay its debt to the IMF, the World Bank and the African Development Bank and meet the political obligations relating to the peace agreement of 2005 that was drafted to end the civil war. As such, specialist credit insurers Credendo Group rate Sudan's current economic situation as so dire that they have no plan to upgrade the political risk classification in the medium term which is currently at the highest risk level of 7.

Source: Credendo Risk Monthly "Sudan: Lifting of US sanctions barely improves the economic outlook as structural problems remain" November 2017.



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