Country Risk and the Global Outlook

November 2022

US Seems To Head Towards Policy Gridlock After Midterms

Commentary:

"Expectations of a divided government in the US after the midterms has raised the liklihood of policy gridlock, a mixed outcome for businesses. Natural gas prices in Europe have come down on expectations of a warmer winter, but the upside risks to prices related to the ongoing conflict in Ukraine and Asian demand persist. The Asia-Pacific region is witnessing a renewed focus on security challenges given the geopolitical backdrop; businesses should assess supply chain and operational risks. While the leading indicators of the Indian economy i.e. GST collection, business confidence levels point to sustained resilience of the Indian economy till now, momentum of growth is expected to decelerate amidst worries of a looming policy crisis at a global level," said Dr Arun Singh, Global Chief Economist, Dun & Bradstreet.

INTRODUCTION

Economic data coming out of the US points to an economy that is slowing but still strong (jobs and services consumption), followed by the first positive sign on inflation in months. We expect the Fed, which maintained its hawkish stance with a fourth consecutive 75 bps hike in November, to now hike by 50bps in the next meeting. While final results on the US midterms are days (or probably even weeks) away, the economy does not seem to have hurt Democrat prospects to the extent anticipated. To be clear, Democrats are still likely to lose control of the House of Representatives, which would mean a divided government and potential policy gridlock on matters such as government spending, debt ceilings and taxation. For businesses this is a mixed bag- long-term investment decisions awaiting clarity on policy direction may have to be deferred, while near-term it could mean a near certainty of 'no legislative surprises'.

Many consumers and businesses in European economies spent the last several months fearing a winter without Russian gas. The circumstances that created those risks - the war between Russia and Ukraine and the ensuing supply disruptions and sanctions - persist, and are arguably getting worse. Winter is here and Europe seems better prepared than many risk models had envisioned. The situation is benign, in part, due to the expectation of a relatively warmer winter. It's still not clear how Russia will react to its waning leverage on gas supplies, and to the fact that the Ukrainian counteroffensive is seemingly quite effective. In an ongoing conflict, acts of sabotage on underwater gas infrastructure and targeted attacks on utilities (some of which we have already seen) could be ramped up quickly with much greater consequences. While Europe seems to be steering away from the worst-case scenario on energy supplies for now, the risks associated with the ongoing conflict remain.

GLOBAL OUTLOOK: MAINLAND CHINA'S 20TH PARTY CONGRESS HAS YIELDED NO SURPRISES IN TERM OF OUTCOME

In Mainland China, the 20th Party Congress yielded no surprise in terms of outcome. President Xi will continue at the helm of the party for a third term. It is worth noting that for all the hype around the event, little has changed in terms of policymaking. The long-term priorities for Mainland China - equity, self-reliance on technology, productivity enhancement to deal with the demographic challenge - remain as they were. In the near term, the containment approach to dealing with the coronavirus and fiscal and monetary stimuli to address the economic slowdown will also continue. For businesses, it entails both risks and opportunities. Foreign policy may witness changes that could generate volatility in business outcomes, especially in regards to supply chains and compliance.

Although there are headwinds, including fears of a global slowdown and persistently weak Chinese demand, the oil market is in a better position than it has been in prior economic downturns. That is partly due to OPEC's supply control during the peak of the pandemic, which has kept stocks relatively low. Prices are still being supported structurally by underinvestment in the sector. LNG markets remain tight. Warm weather and robust LNG imports have eased Europe's energy concerns, allowing storage facilities to fill up considerably sooner than anticipated. Yet supply threats remain high. The demand for LNG could spike if Europe experiences a cold snap. Winter in Asia is predicted to be colder than usual, which keeps the outlook for demand in Asia high. Overall, prices are expected to move sideways, barring any weather-related or geopolitical anomalies.

Strong European demand is pushing coal prices up, while rising domestic production in Mainland China could put pressure on prices before the peak heating demand season. Power companies in Europe are using coal over gas as a result of the energy crisis, which means more competition for seaborne coal. Due to a high level of domestic production, Mainland China has reduced its imports of coal recently. For industrial commodities, demand slowdown in Europe and Mainland China weighs over supply issues, causing prices to move downward, and are expected to remain on a downward trajectory until 2023. Precious metals are reacting to central bank moves. Agriculture commodity prices also appear moderating with fresh arrivals as well as improvement in supply-chains.

Dun & Bradstreet Country Risk Analysis			
Country	**October 2022**	**November 2022**	**Change**
Country Risk Rating Upgrades (risk level has improved)			
Algeria	DB6b	DB6a	1 Quartile
Angola	DB6b	DB6a	1 Quartile
Bolivia	DB6a	DB5d	1 Quartile
Egypt	DB6b	DB6a	1 Quartile
Country Risk Rating Downgrades (risk level has deteriorated)			
Honduras	DB5d	DB6b	2 Quartiles
Latvia	DB4a	DB4b	1 Quartile
Netherlands	DB3b	DB3c	1 Quartile
Panama	DB3b	DB3c	1 Quartile
Outlook Upgrades (from/to)			
Iceland	Deteriorating	Stable	
Outlook Downgrades (from/to)			
Mainland China	Stable	Deteriorating	
Lebanon	Stable	Deteriorating Rapidly	

REGIONAL SUMMARIES

North America

North America's regional outlook is retained as 'deteriorating' as both the United States and Canada continue to deliver aggressive rate hikes to tame inflation, while grappling with a tight labour market. The Bank of Canada hiked by 50 bps, which was below market expectations, raising rumours of a 'dovish pivot.' The Fed stayed on script to deliver a 75bps hike, maintaining its hawkish pitch. In both instances, mortgage rates breached record levels and consumer sentiment has weakened with declining purchasing power.

Goods manufacturers should note that the demand for their goods continues to weaken. In the services sector, labour shortages and rising wages are putting pressure on profit margins of businesses. The first expansionary quarter of 2022 for the US saw a contraction in imports and contracting private investment, another sign of weakening domestic demand. Along with housing market weakness, it portends that any holiday season boost to sales may not last long. Housing market weakness is likely to have an disproportionate impact in Canada because of the importance of the sector at a time when commodity exports are also likely to soften due to weakening global demand.

Western & Central Europe

Western Europe's regional outlook is retained as 'deteriorating rapidly'. The new Italian government has been met with indifference by financial markets. In the UK, audacious fiscal largess and unorthodox policy communication triggered abnormal volatility in Sterling, increase sovereign risk and unparalleled political instability, forcing Prime Minister Liz Truss to resign. A series of policy U-turns and a new cabinet subsequently restored calm ahead of the next fiscal event. Threats to the credibility of policymakers remain.

With a looming recession in major European economies, central banks continue to fight inflation with tighter monetary policy while governments struggle to shield households from the impact of the cost-of-living crisis. Businesses need to plan for higher input costs, weaker demand, and depreciating inventories. While a weaker currency might increase exporters' competitiveness, the net effect on revenues will depend on the (import-export) mix of currencies used and served geographies. Given higher FX volatility, businesses should assess the maturity of contracts that involve foreign currencies, have a comprehensive view of FX risk in their supply chain and implement diversification when feasible.

The Nordics

All Nordic nations are reeling under high inflation, economic uncertainty, significant growth slowdown, high electricity and food prices, along with the policy quandary of protecting growth and managing inflation. Benchmark interest rates are at decade-high level, with central banks hinting further hikes even as higher borrowing costs have started hurting businesses and consumers alike. High energy intensive economies like Finland could face blackouts in severe winters.

Asia Pacific

The outlook for the Asia-Pacific region is retained as 'deteriorating' as the region faces the brunt of cooling global economic growth and geopolitical tensions. Exports across the region have begun to weaken, and persistent tightening by the US Fed has kept downward pressure on almost all currencies – the Vietnamese dong was the latest to witness a sudden weakening. While inflation in the region is more benign compared to other parts of the world, upward pressure is apparent. In a bid to maintain currency stability, central banks in the region have continued hiking interest rates (Japan and Mainland China remain notable exceptions). While Q3 GDP growth for Mainland China came in higher than expected, overall, 2022 growth will disappoint and that will be an additional dampener on closely integrated regional economies. At the same time, the region also offers growth opportunities in countries such as Indonesia, India, and Vietnam.

Businesses should note that an extension to President's Xi's leadership following the 20th National Party Congress means policy continuity in all domains, including the approach to virus containment. North Korea's aggressive missile tests, US's national security strategy document, shuffling of military resources in the Indo-Pacific and greater focus on security in Taiwan Region, Japan and South Korea, all points to heightened focus on security issues in the region. Businesses should review supply chains and prepare for higher financing and compliance costs. Portfolio investors should also note risks to domestic political stability in countries such as Pakistan and Malaysia.

Latin America & Caribbean

Luiz Inacio Lula da Silva won the Brazilian presidential elections by a narrow margin in a runoff election on 30 October 2022. However, it cannot be ruled out that President Jair Messias Bolsonaro may contest the results, especially since he has not yet conceded defeat. Political tensions may remain elevated in the next few weeks. Businesses need to watch out for potential reforms in the labor market, public spending, direct taxation and climate change. Lula's victory may also likely increase the level of cooperation and integration with other developing economies.

While Latin America has seen a rebound in services sector activity, remittances, and tourism, the road ahead will be difficult due to unfavourable external conditions. Prices of agricultural products and metals and minerals have declined to the lowest in nine months and 22 months, respectively. As lower commodity prices amplify the adverse effects of rising interest rates, majority commodity exporters such as Mexico, Argentina, Brazil, Peru, and Chile will be impacted. The slowdown in global trade volumes will impact Panama and the Dominican Republic.

Eastern Europe & Central Asia

The outlook for EECA is retained at 'deteriorating rapidly' with Russia escalating the war beyond ground operations to airstrikes on key Ukrainian establishments. The region is now experiencing a severe economic breakdown, with no resolution to the coflict in sight. All economies are reeling under double-digit inflation with significant growth slowdown and the region could enter technical recession in 2023. High commodity prices, a bleak economic outlook and vulnerable geo-political stability continues to dent economic revival prospects.

Middle East & North Africa

The US has condemned the OPEC's decision to cut production by two million barrels per day, with the move being perceived as "aligning with Russia". OPEC seems to be determined to protect oil prices from falling too much, with demand concerns pushing prices down. Any drastic measure such as the 'NOPEC' deal, or withdrawal of US troops stationed in Saudi Arabia, is unlikely for now.

Talks on the revival of the 2015 Iran nuclear deal have stalled again, with the issue now being linked to Iran's alleged sale of drones to Russia. Protests have continued to escalate in the county even as crackdowns intensify by the authorities. Meanwhile, Israel's legislative elections on 1 November, the fifth in less than four years, have yielded another right-wing coalition paving the way for Benjamin Netanyahu's comeback as premier.

Sub-Saharan Africa

South Africa, the most industrialized nation in Africa, has been experiencing heavy power cuts spanning six hours a day. The state-owned power producer Eskom, which generates most of its electricity from ageing coal-fired power plants prone to breakdowns, plans to cut about 6,000 megawatts (MW) of power in a staggered manner to prevent a catastrophic collapse of the national electricity grid. South Africa's government is planning to take over up to two-thirds of the $22 billion debt of Eskom, which is expected to "ensure Eskom's long-term financial viability" after years of state cash injections which have failed to turn round the utility's collapsing power plants. South Africa also exports electricity to Mozambique, Lesotho, Swaziland, Namibia and Botswana. The situation jeopardizes the availability of electricity in the region, and some countries are moving to secure supply; for example, Botswana is looking to purchase more power from Zambia.

Egypt is close to finalizing a deal with the IMF which will provide USD3-5 billion. Egypt devalued the pound sharply with the central bank adopting a more flexible exchange-rate regime and raised official borrowing costs by 200 basis points. The government has also adopted a more investor-friendly stance, with attempts to accelerate multiple PPP programs. The United Nations has warned that the Horn of Africa will be affected by severe drought in November, the most severely affected countries being Ethiopia, Somalia and Kenya.

DUN & BRADSTREET RISK INDICATOR

Dun & Bradstreet's Country Risk Indicator provides a comparative, cross-border assessment of the risk of doing business in a country. The risk indicator is divided into seven bands, ranging from DB1 to DB7 – DB1 is lowest risk, DB7 is highest risk. Each band is subdivided into quartiles (a-d), with 'a' representing slightly less risk than 'b' (and so on). Only the DB7 indicator is not divided into quartiles.

The individual DB risk indicators denote the following degrees of risk:

DB1	Lowest Risk	Lowest degree of uncertainty associated with expected returns, such as export payments and foreigh debt and quity servcing.
DB2	Low Risk	Lowest degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.
DB3	Slight risk	Enough uncertainty over expected returnsto warrant close monitoring of country risk. Customers should actively manage their risk exposures.
DB4	Moderate Risk	Significant uncertainty over expected returns. Risk-averse cusromers are advised to protect against potential losses.
DB5	High Risk	Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.
DB6	Very High Risk	Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.
DB7	Highest Risk	Returns are almost impossible to predict with any accuracy. Business infrastructure has, in effect, broken down.

Rating and Outlook Changes:

Rating changes: Changes in rating are made when we judge that there has been a significant alteration in a country's overall circumstances – this could stem from a one-off event (e.g. a major natural disaster) or from a change in something structural/cyclical (e.g. an important shift in growth prospects). An upgrade indicates a significant change for the better, a downgrade a significant change for the worse. The number of quartiles of change indicates the extent of the improvement/deterioration in circumstances.

Outlook changes: The outlook trend indicates whether we think a country's next rating change is likely to be a downgrade ('Deteriorating' trend) or an upgrade ('Improving' trend). A 'Stable' outlook trend indicates that we do not currently anticipate a rating change in the near future.

How Dun & Bradstreet can help

In addition to providing economic insights, Dun & Bradstreet offers a range of solutions that helps clients grow and thrive by empowering more intelligent actions that drive a competitive edge. Our data, insights and AI-driven platforms bring value to our clients both at departmental levels and across the organisation.

Clients can access the Dun & Bradstreet Data Cloud directly for market-leading B2B data to fuel enterprise applications and workflows. Equally, clients can take advantage of our AI-driven SaaS solutions to gain a competitive edge within the areas of sales and marketing by identifying and engaging with the right targets - through modern, scalable solutions, and finance and risk to drive intelligent actions to manage credit-to-cash and third-party risk. Small business owners use our solutions to help launch and manage their businesses. Dun & Bradstreet also works with agencies in every facet of government and the public sector - providing timely and critical information and insights that advance missions and help citizens thrive. More information is available at dnb.com

Legal and Copyright Notices

While the editors endeavour to ensure the accuracy of all information and data contained in this Country Insight Report, neither they nor Dun & Bradstreet Limited accept responsibility for any loss or damage (whether direct or indirect) whatsoever to the customer or any third party resulting or arising therefrom.

Disclaimer

Whilst Dun & Bradstreet attempts to ensure that the information provided in our country reports is as accurate and complete as possible, the quantity of detailed information used and the fact that some of the information (which cannot always be verified or validated) is supplied by third parties and sources not controlled by Dun & Bradstreet means that we cannot always guarantee the accuracy, completeness or originality of the information in some reports, and we are therefore not responsible for any errors or omissions in those reports. The recipients of these reports are responsible for determining whether the information contained therein is sufficient for use and shall use their own skill and judgement when choosing to rely upon the reports.