Position for uncertainty

Global macro themes for 2024

January 2024

Introduction

As we enter 2024, the global economy faces enormous uncertainty. In the post-covid world, geopolitics and domestic political dynamics are driving much of the global economy. The world is undergoing rapid change, but the direction of developments is not always obvious. This is especially so in 2024.

Our ten macro themes reflect this reality. Governments, corporates and investors around the world will have to deal with an uncertain environment and ensure they are prepared for a wide range of outcomes and risks.

- The **global economic slowdown** continues, though plausible downside and upside scenarios exist. Recession has not disappeared as a risk, though falling inflation also provides room for interest rates to come down.
- A **wave of elections** will force politicians to focus on winning votes and devising rather than implementing policies. The outcome of many elections, especially in the US, is deeply uncertain but will shape the policy direction in many economies for years. New policies and initiatives will provide opportunities across a range of sectors.
- **Geopolitical tensions** between the West on one side, and China and Russia on the other, will intensify. Many emerging economies are diversifying their geopolitical relationships as a result. But as power is more diffuse in the global system, conflicts between smaller powers and/or non-state actors pose potential risks for the global economy too, affecting supply chains and commodity markets.
- Policymakers will continue to pursue greater **economic security and diversification** at the expense of pure economic efficiency, forcing a rewiring of supply chains. This provides opportunities for countries keen to attract new value chains, and businesses in affected sectors.

Our macro themes are also a call to action: to position for uncertainty. With a close monitoring and the right strategies in place, organisation can minimise downside risks and benefit from macro events and trends in 2024.

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Starter for 10: global macro themes for 2024

1

A DRIVERLESS GLOBAL ECONOMY
The global economy is set to bottom out in 2024, as the world's three largest economies enter a period of slow growth dragging global growth below 3%.

2

MONETARY EASING IS GETTING REAL (SOMEWHAT)
Slow growth and rising political pressure may prompt major central banks to cut interest rates more quickly than inflation comes down.

3

THE WEST FOCUSES ON ITS OWN AFFAIRS IN AN ELECTION YEAR
Elections in the UK, EU and US will force politicians to focus their efforts on domestic issues.

4

CHINESE OVERCAPACITY ADDS TO RIVALRY WITH EU AND US
China's aggressive policies and overcapacity will strain relations with major Western economies.

5

ECONOMIC INTERESTS DRIVE GEOPOLITICAL DIVERSIFICATION
New forms of economic cooperation aim to hedge geopolitical risks and safeguard economic interests.

6

TAIWAN TENSIONS ENTER A NEW PHASE
Cross-strait tensions will enter a new phase with William Lai's likely victory in Taiwanese elections, though the risk of direct military conflict seems low.

7

NEW AND OLD ASIAN LEADERS VIE FOR SHIFTING SUPPLY CHAINS
Elections and leadership changes in Asia will continue to shape the rewiring of global supply chains.

8

LOW-INCOME DEBT CRISIS EXACERBATED BY GREAT POWER RIFTS
Policy response to debt restructuring and additional funding will be marred by geopolitical tensions.

9

GEOPOLITICS KEY RISK TO COMMODITY MARKETS
Though broadly still higher than pre-2021, a lack of demand will put a lid on commodity prices in 2024, with geopolitics likely adding volatility.

10

US OIL DOMINANCE CHALLENGES OPEC+
Record high US oil production will further reduce the cartel's influence this year, though Gulf countries will continue aggressive diversification plans.

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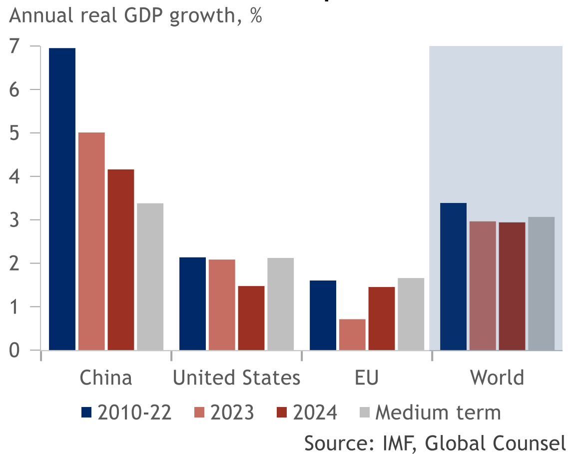
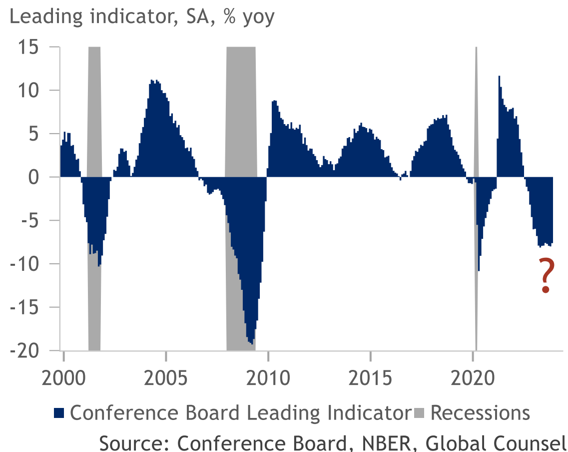
A driverless global economy





After a challenging 2023, the global economy is set to bottom out in 2024 with growth falling below 3% for the first time in more than two decades outside of recession years. The world's top-three economies will see structural and cyclical slowdowns that mean demand drivers for the rest of the world will be weak in 2024 and beyond just as headwinds from high rates and geopolitical uncertainty persist.

- The US economy is expected to make its 'landing' – and many forecasters assume it to be soft with growth of about 1%. Tight labour markets and generous consumer spending will be the stabilisers as investment is subdued and the government struggles to provide much stimulus despite the election year. The risk of a more pronounced slowdown – a recession or 'hard landing' - is substantial as more benign outcomes are historically rare.
- The EU could recover somewhat on the back of tight labour markets and falling inflation pushing up real incomes which supports consumption. Otherwise, there likely won't be a real driver of growth and downside risks due to high rates, fiscal drag and geopolitics are high.
- Growth in China is expected to fall substantially to around 4.2%, closer to the country's estimated medium term growth potential. Private consumption and investment are expected to remain subdued, so public spending largely on supply side measures and exports will drive growth as China pushes its overcapacity onto international markets.

This external environment is challenging for emerging markets, though pockets of opportunity clearly exist. There is also an upside scenario which would see large economies, led by the US, outperform expectations. For instance, the quick adoption of AI could be a driver of productivity growth. However, we judge downside risks to be higher in 2024.

IMPLICATIONS

- Western labour markets and household consumption have proven resilient in the last few years. Wage and employment dynamics will be key economic indicators to watch in 2024.
- Import demand will remain sluggish, slowing growth in many export-oriented economies.
- We could be in an extended period of low growth. Markets in which popular discontent with governments is high and rising could see elevated risks of civil unrest and instability.

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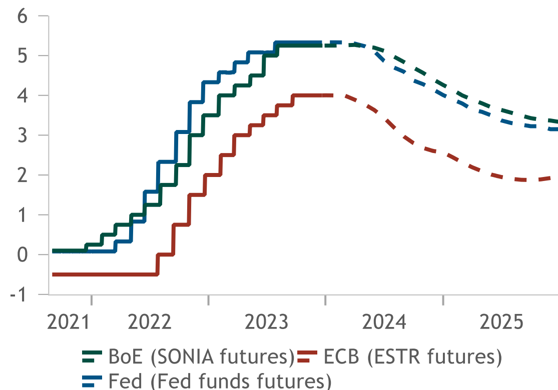
Monetary easing is getting real (somewhat)

Markets have already priced in rate cuts

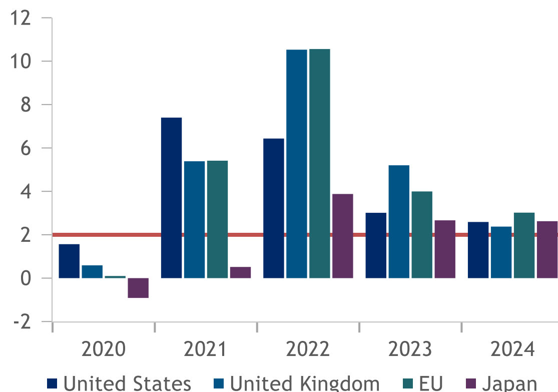
Policy rates and market-implied rate trajectories



Source: ICE, Macrobond, Global Counsel

Inflation approaches target

Consumer price inflation end of period, % yoy



Source: IMF, Global Counsel

As major central banks appear to have concluded their aggressive tightening cycles, they will face pressure to cut rates to ensure the expected 'soft landing' doesn't turn into a hard one. Inflation is coming down and could reach 2.6% by the end of 2024 in advanced economies. Market participants expect the Fed, ECB and BoE to start cutting rates this year, following in the steps of some emerging market central banks. Indeed, easing inflation and political pressure make rate cuts likely by summer.

- Even though the Fed tried to defuse talk about rate cuts very recently, FOMC members now expect three rate cuts (75 bps) in 2024. However, markets assume up to six starting between March and July. In Europe, the weak economic outlook will likely see the ECB also cut rates by the summer as inflation decelerates faster than forecasted. Inflation is currently expected to come down most sharply in the UK, though structural inflationary pressures could force the BoE to keep interest rates higher than elsewhere.
- Even if central banks start to ease policy, real interest rates in the US and Europe are expected to remain high in 2024 - in the US close to their highest in more than 20 years - as inflation continues to fall. Rising real rates will be one reason for central bankers to cut unless inflation re-accelerates, which seems less likely. Fiscal pressures could mean rates are being cut faster than inflation falls.

A significant slowdown or recession (e.g. due to troubles in the commercial real estate sector) could force central banks to act much swifter, especially in the US where the FOMC will be under pressure to maintain growth ahead of the elections – at the risk of fuelling inflation.

IMPLICATIONS

- High real rates will incentivise consumers to defer spending, especially on big ticket items. Businesses will be under pressure to protect margins and increase returns (or else go bust).
- We could see renewed stresses in the financial system, also fuelled by concerns about rising public debt burdens. The Fed could be forced to expand liquidity provisions to banks.
- Fed rate cuts should be negative for the US dollar, especially if deeper than expected.

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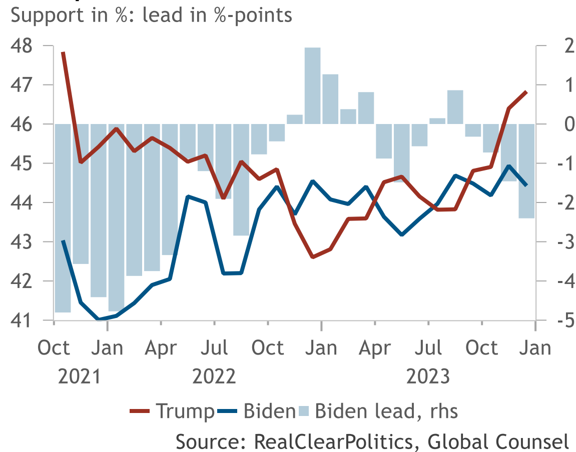
The West focuses on its own affairs in election year

Trump 2.0 is not an outside risk

Support in %: lead in %-points



Source: RealClearPolitics, Global Counsel

EU-US trade more important for both sides

Share of an economy's total exports (4-q moving sum), %

Source: Macrobond, Global Counsel

Leaders in the US, UK and EU will have their next meeting with destiny in 2024. General elections in the US and UK, plus elections to the European Parliament (besides a series of national and local elections in EU member states) will force politicians to focus their efforts on domestic issues and on winning over voters. This will also impact the level of alignment between the three transatlantic partners.

- Political competition for setting the agenda for the next policy cycle - rather than implementing new policies - will be the focus on both sides of the Atlantic. There is a growing anti-incumbent sentiment across markets, though there seems to be an emerging consensus about the need to boost growth as inflation has come down markedly. Right wing swings are plausible in the EU and the US, with the return of Donald Trump a key risk. Polarisation in Congress and Republican infighting will be a real risk to passing a US budget. The UK election leans toward the left with Labour leading. Expect anti-migration policies to play a key role in elections as popular pressures to curb migration rise amid weak growth. Technology will play a key role in all campaigns, potentially exacerbating polarisation.
- Transatlantic cooperation has been deepening in defence (Ukraine) and economic security while bilateral commercial issues remain largely unresolved. As the EU seeks to boost its competitiveness, tensions over industrial policy seem likely and could be exacerbated by stricter EU fiscal rules. A US-UK trade deal has been shelved until after the US election. A more isolationist US on NATO/Ukraine might force Europe to spend more on defence.

As major Western economies are more inward looking in 2024 (though the US election will grab the headlines globally), expect a slowdown in international (policy) cooperation.

IMPLICATIONS

- Election campaigns this year will be messy but could lay the foundations for a pro-growth agenda beyond 2024. It is the best time to partake and shape the policy debate.
- Differences in US economic policy approaches between Biden and Trump will likely drive financial returns in the second half of the year.
- Economic competition between the EU and US will intensify and affect bilateral ties.

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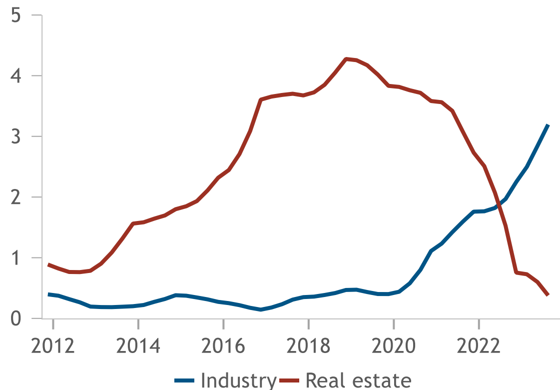
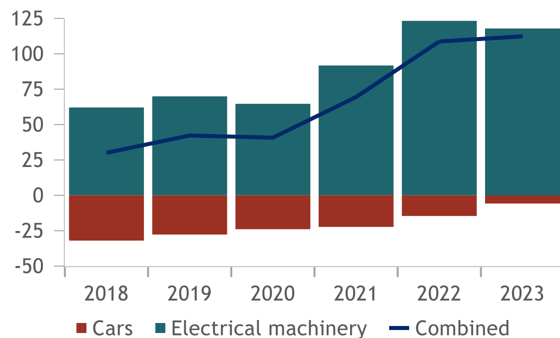
Chinese overcapacity adds to rivalry with EU and US





China is rebalancing its economy but not in ways Europe or the United States would like. As domestic demand remains weak, Beijing is pursuing a major push to build a dominant position in greentech and other advanced manufacturing. While supporting disinflation globally, China's aggressive policies and overcapacity will put further pressure on industry elsewhere and strain relations with major Western economies.

- A widening trade deficit and heightened competition in key sectors with China are increasing concerns for the EU. The European Commission has called the current imbalances unacceptable and said trade barriers would need to rise unless China sticks to the rules. It has launched an investigation into EVs and is likely to look into other greentech products too, such as wind turbines. The EU's Net Zero Industry Act aims to boost domestic production capacity in the coming years.
- High Trump-era tariffs on Chinese products mean the US is a smaller market for Chinese greentech products. With Beijing channelling large sums into the sector, cheap Chinese products could increasingly make their way into the US too, sparking a reaction as Washington steps up its own greentech production through the Inflation Reduction Act. Besides, US concerns are focused on the microelectronics and computing sectors. The Biden administration is likely to step up enforcement of export controls on sensitive technology to China and could announce another round of restrictions for microchips.

One lever Beijing has is its dominant position as a supplier of rare earth metals needed for greentech and semiconductors. These will be part of China's reaction to EU and US.

IMPLICATIONS

- Chinese overcapacity will deepen concerns about unfair competition and fuel the 'de-risking' agenda established as the common EU/US approach towards China. Pressure on companies to de-risk from China will persist. Despite China's slower growth, it remains a crucial market for many.
- The EU's hardening approach will spark a counter-reaction from Beijing, which risks European firms being caught in the cross-fire.

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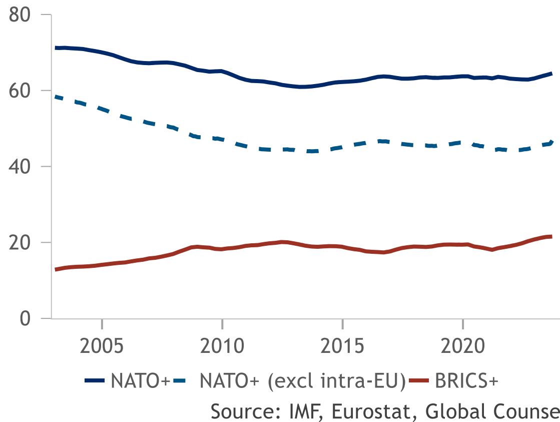
Economic interests drive geopolitical diversification

Not all geopolitical 'blocs' are equal

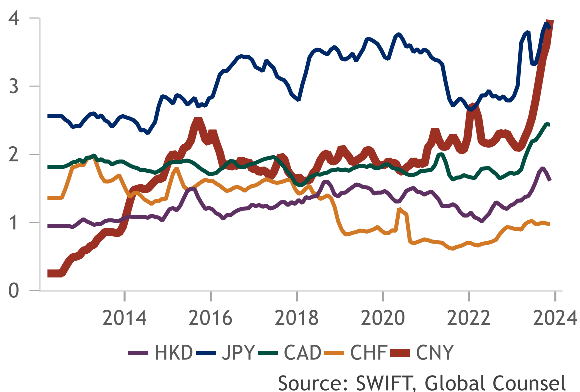
Intra-bloc goods trade as share of total (4-qmv), %



Source: IMF, Eurostat, Global Counsel

CNY overtakes JPY as number four in global payments behind USD, EUR and GBP

Share of global payments on SWIFT, %



Source: SWIFT, Global Counsel

2024 will see greater pressure on governments to choose sides along geopolitical fault lines, but those who can afford it will pursue multi-alignment strategies to maintain political and commercial ties with different sides. New forms of economic cooperation are gaining prominence to hedge geopolitical risks and safeguard economic interests.

- Competition and conflict between the West or NATO+, and Russia and China will continue. There are few prospects for a resolution of the Russia/Ukraine war in 2024, though Ukraine's troubles on the battlefield will likely mean more attempts by the West to weaken Moscow economically. A significant shift in the strategic competition between China and the West is also unlikely and more restrictions could be enacted for trade and investment. This polarisation will continue to create pressure on governments across the globe to support Western sanctions – or to undermine them.
- Emerging middle powers will navigate to avoid choosing one camp. Many current and new BRICS+ members see membership as a hedge against a world order perceived as too Western-dominated but will prevent the grouping from turning into a pro-Russia/China alliance. Yet, with five new members creating less cohesion and Russia as BRICS chair, this balancing act becomes more complicated. De-dollarising commodities trade is one area where members might have - to differing degrees - a shared interest.
- OPEC+ has become the key forum for Russia-Saudi energy cooperation, despite the Ukraine war. Gulf powers will strengthen ties with Asia to lock in energy demand.

Fragmenting international cooperation provides a key challenge to Brazil's G20 leadership.

IMPLICATIONS

- The pressure on companies and governments to align with Western sanctions will remain high. Compliance failures will likely be made costly.
- Currency diversification in trade invoicing is likely to continue, led by the CNY.
- Middle East powers will seek to play a more independent role to maintain their energy and security interests, and as the West's position on Israel becomes a political risk.

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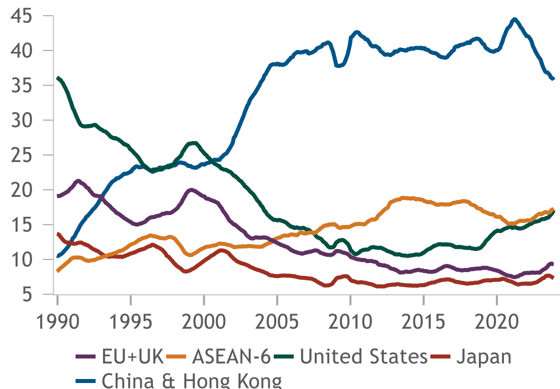
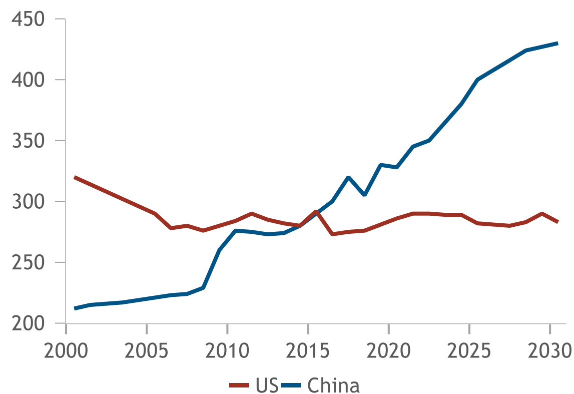
Taiwan tensions enter a new phase



Source: Taiwan Ministry of Finance, Global Counsel



Source: Congressional Research Service, Global Counsel

Lai Ching-te, also known as William Lai, from the Democratic Progressive Party is likely to win Taiwan's presidential election in January. While it likely won't be a decisive victory, China might see it as a sign that its current strategy for a peaceful reunification is failing. Beijing deeply distrusts Lai who will look to further diversify Taiwan's trade ties, reducing China's economic influence. Cross-strait tensions will enter a new phase.

- China will step up its claims over Taiwan and intensify attempts to isolate and hurt the island economically. Continued military exercises around Taiwan are meant to create a sense of crisis and uncertainty, dampening investment. China is likely to impose targeted restrictions against Taiwanese firms and products, and could even go as far as terminating the Economic Cooperation Framework Agreement, signed between Beijing and Taipei in 2010. Beijing might also tighten the 2005 secession law based on the Hong Kong National Security Law, making secessionist activities illegal anywhere in the world. The situation of Taiwanese nationals living in or travelling to China will become more precarious.
- Tensions will reverberate across the Pacific. No US president wins an election on foreign policy but its pays to be seen as strong, especially on China. The US navy believes the 2024-27 window is dangerous as naval power is shifting, and is planning to deploy missiles to Taiwan in 2024. China is likely to react. Also, the next head of Japan's ruling Liberal Democratic Party will likely be a China hawk, encouraging Taiwan's de-risking from China.

While unlikely, a main opposition Kuomintang victory could mean four years of closer cross-strait cooperation, though tensions between the US and China are unlikely to ease.

IMPLICATIONS

- Risk perceptions around China will remain high, incentivising firms and investors to shift production and supply chains to lower-risk destinations in Southeast and South Asia.
- Companies should plan for different downside scenarios even if we believe a Chinese invasion of Taiwan remains unlikely in the medium term.
- Supply chain integration between Taiwan and mainland China will become riskier.

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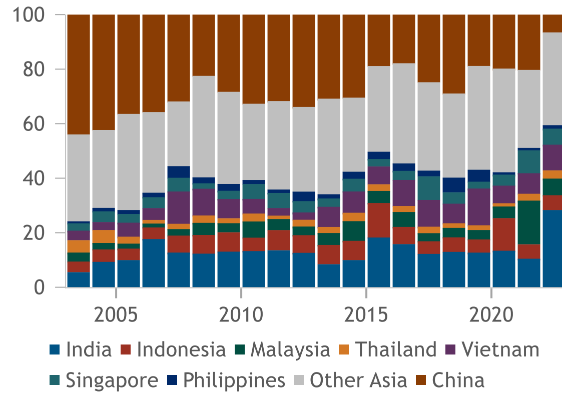
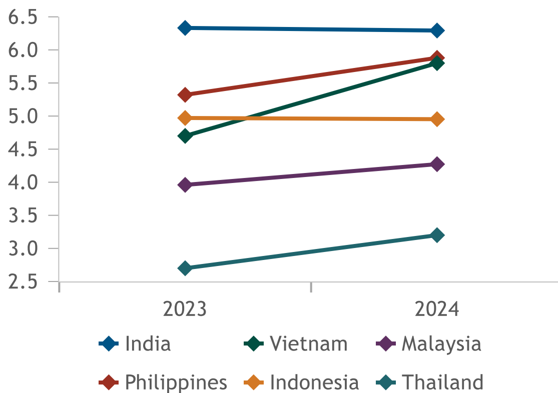
New and old Asian leaders vie for shifting supply chains





Elections and leadership changes in Asia throughout 2024 will continue to shape the rewiring of global supply chains. Besides Taiwan, there will be elections in India and Indonesia, a likely election in Singapore, and a change in leadership in Malaysia. New and old leaders will seek to position their countries to benefit from the changing geopolitical and economic landscape, fuelling competition between Asian nations.

→ India's Narendra Modi has established his country as a critical player in this new global environment. New Delhi has increased cooperation with the West in economic and defence areas while positioning itself as a leader of the developing world. With Modi likely to secure a third term, his emphasis on strengthening Indian sovereignty, global prominence and role in manufacturing and tech will continue. Pursuing reforms and attracting investment from Western firms will remain a key priority. His approach could increase confrontation with Beijing, impeding India's ability to attract investment from and maintain certain supply chains with China.

→ Southeast Asian leaders are in a similar race to benefit from changing investment and trade flows. They will position their countries as alternative destinations for both Western and Chinese firms that seek new growth markets and supply chain resilience. Leading Indonesian presidential candidates have pledged to attract more foreign direct investment and localise manufacturing. Malaysia's business-minded future king, Sultan Ibrahim, will amplify efforts to lure foreign, including Chinese, investment to his country while in Singapore, any new leadership will continue the course of the current one that recently elevated relations with China, although to levels still below its ties with the US.

IMPLICATIONS

→ India and Southeast Asian nations are well positioned to benefit from diversification away from China. Effective economic strategies will determine who will be able to build competitive clusters of economic activity and compete with nearshoring places like Mexico.

→ India's large potential as a growing consumer market and alternative to China is quickly gaining interest, though this requires a thorough assessment of market opportunities.

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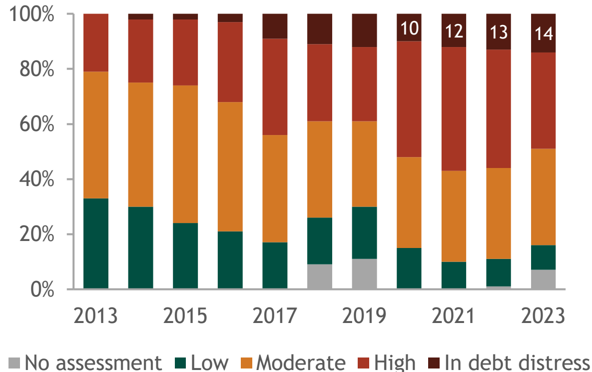
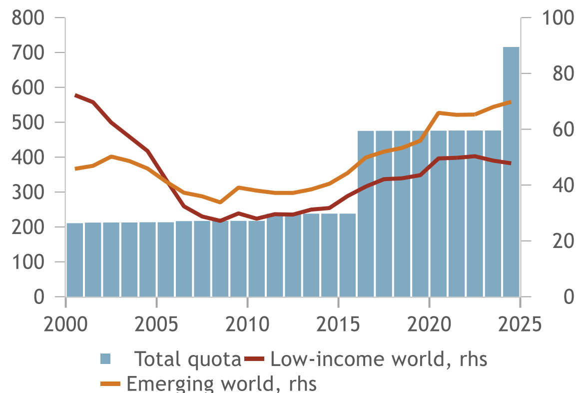
Low-income debt crisis exacerbated by great power rifts

Debt distress dangers remain acute
IMF debt sustainability assessment, share of LICs



Source: IMF, Global Counsel

Greater IMF firepower may ease debt fears
Total quota, SDR bn; Gross debt, % of GDP (rhs)



Source: IMF, Global Counsel

High debt levels in developing countries amid high global interest rates will push the most exposed countries to the point of crisis. The international policy response to debt restructuring and additional funding will be marred by geopolitical tensions.

- Ethiopia defaulted on its sovereign debt in late December 2023. This highlights that the danger for highly indebted poor countries has not yet passed. More than half of the world's poorest countries are at risk of or already in debt distress. Some will default. Others may avoid default but will be forced to continue diverting scarce resources to pay their debt - in 2022, developing countries spent $443.5 bn on debt service. Debt service costs will remain high as global interest rates stay elevated.
- Geopolitical tensions will complicate the international response. The consensus underpinning creditor cooperation is fragile. Zambia's debt restructuring, considered the most important test case for the G20 Common Framework on Debt, remains incomplete. Official creditors and bondholders are likely to clash again – over Zambia and elsewhere - and China's willingness to compromise will be crucial.
- The role of concessional finance is key as foreign aid budgets remain under pressure. Delivering Ajay Banga's vision for a World Bank that takes on more risk requires delicate balancing to maintain the bank's AAA rating. The recent 50% IMF quota increase will enhance the fund's resources – crucially without quota re-alignment. This will continue to limit Chinese influence in the Bretton Woods institutions, but structural reform demands will remain on the agenda.

IMPLICATIONS

- While sub-Saharan Africa is particularly impacted - debt servicing costs exceed spending on health, education and social security by a factor of two - other countries are also at risk, including Tunisia, Pakistan, Laos, Bolivia and Argentina.
- The lack of quota re-alignment at the IMF means the US and its allies will retain control of the fund and may be able to use its lending power to challenge the dominance of Chinese lending in areas of Asia and Africa.

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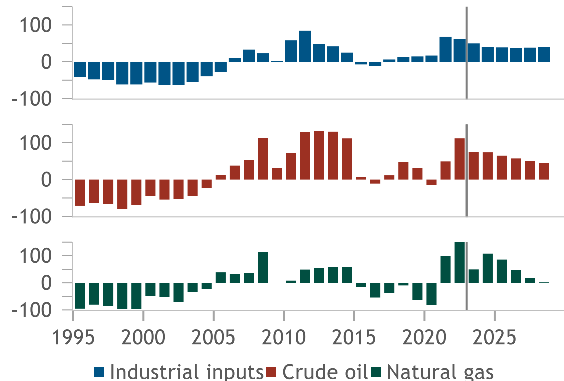
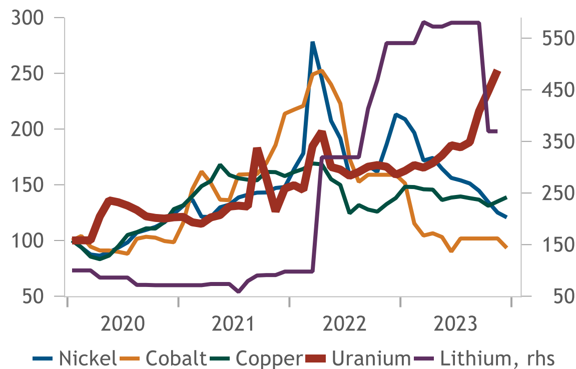
Geopolitics key risk to commodity markets

Elevated prices ahead
Price index, deviation from long term mean



Source: IMF, Global Counsel

Not the expected winner
Spot price index (lhs) and Japanese import price index (rhs), Jan 2020 = 100



Source: Macrobond, Global Counsel

After two strong years, commodities disappointed in 2023 as prices fell for most. This was not widely expected as the narrative of a new commodities super-cycle had taken hold. While many macro trends provide reasons to be bullish on commodities in the second half of this decade, 2024 might only bring limited price growth. Prices are still expected to remain largely higher than pre-2021 with geopolitics adding volatility.

- Weak global growth, the manufacturing slowdown and high interest rates mean energy and industrial metals demand will remain subdued. On the upside, falling interest rates could lift commodity prices to some degree, making inventory holdings cheaper and putting downward pressure on the US dollar, which should further support prices. Precious metals like gold and silver could benefit more strongly in this environment.
- Demand for EVs is lower than expected. Many car manufacturers outside China have cut their EV production targets as a result. It is unlikely that consumers will change their mind in the short term as technology and infrastructure need to improve, and fiscal pressures mean EV subsidies are being reduced. High rates are also hitting solar and wind projects. By contrast, expectations that nuclear will play a greater role have risen.

Geopolitical risk is a key source of uncertainty. Conflicts in the South China Sea (especially between China and Taiwan or the Philippines) and around the Red and Arabian Seas (with the US and allies against Iran and Houthis) pose a particular risk to commodities shipping and Persian Gulf petroleum production. The potential escalation of the Gaza conflict poses a particular risk for production in and transit through the Middle East. The Ukraine war impacting shipping through the Black Sea, plus Russian efforts to weaponise energy, are further risks.

IMPLICATIONS

- Consumer behaviour will be a key indicator to assess prospects for energy transition metals.
- Geopolitical competition for secure supplies of certain commodities will continue. Firms should plan for geopolitical risks affecting their supply chains.
- High interest rates and lower than expected prices in 2023-24 could depress investment, exacerbating price spikes in the medium term.

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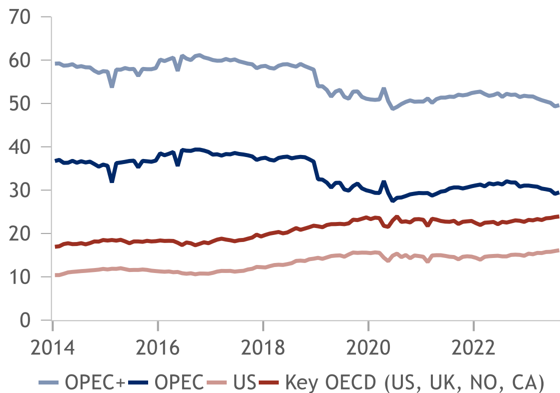
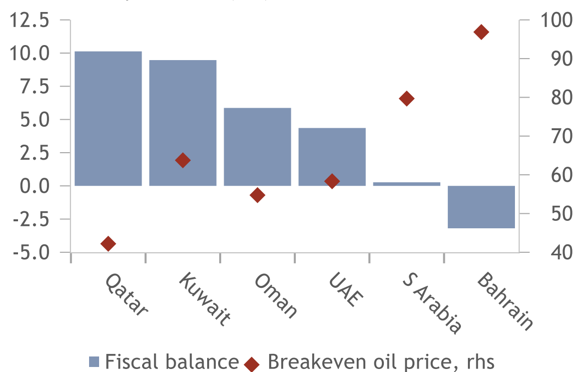
US oil dominance challenges OPEC+





US oil production hit a record high in the last months of 2023. Never has a country produced more oil than the US is producing currently. This came as a surprise to many and, amid weak commodities demand, forced OPEC+ to commit to deeper output cuts for Q1 2024. But the GCC will continue aggressive efforts to diversify their economies.

- The influence of OPEC and its allies is set to fall further in 2024. OPEC's market share is now down from 40% to less than 30% while the extended group only accounts for half of global crude production. Angola's recent departure from OPEC did not have a significant market impact but signals increasing tensions within the group. These could be exacerbated if prices fall further, for instance due to a marked economic downturn. Should the group fail to maintain discipline, Riyadh might change tack and drive prices down to maintain its own market share and incur costs on undisciplined group members.
- Gulf oil producers see the current low-price period as temporary. Saudi Arabia's 2024 budget includes the continuation of large-scale capital investment to diversify the economy. There is an expectation that prices will need to go higher again in the medium term as investment and supply are not keeping up with rising global demand.

Biden will breathe a sigh of relief that diesel and gasoline prices have fallen below the symbolic $4 and $3 per gallon marks, respectively, which should help the president's electoral prospects. It will also ease tensions with Saudi Arabia, which the US has accused in the past of keeping prices high, de facto boosting Russia's financial war chest. Russia's ability to weaponise oil is reduced but not zero. Plenty of other geopolitical risks exist.

IMPLICATIONS

- An oil price at about $80 per barrel is our base case for 2024, an overall positive for the global economy. Riyadh seems keen to defend a price floor of $70 per barrel for now.
- The GCC remains an interesting region for investors in 2024 as governments speed up their Vision 2030 plans. Saudi Arabia also prepares for Expo 2030 and FIFA World Cup 2034.
- Riyadh sees US oil as a challenge, but current price levels help the relationship in 2024.

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