



London 7 December, 2023

**A world in transition: post pandemic  
'normal' anything but stable**

## World economy: OECD GDP forecasts – November 2023

| Real GDP growth | 2023 | Change<br>vs. June | 2024 | Change<br>vs. June | 2025 |
|-----------------|------|--------------------|------|--------------------|------|
| World           | 2.9% | 0.2%               | 2.7% | -0.2%              | 3.0% |
| G20             | 3.1% | 0.3%               | 2.8% | -0.1%              | 3.0% |
| OECD            | 1.7% | 0.3%               | 1.4% | unch               | 1.8% |
| USA             | 2.4% | 0.8%               | 1.5% | 0.5%               | 1.7% |
| UK              | 0.5% | 0.2%               | 0.7% | -0.7%              | 1.2% |
| Euro area       | 0.6% | -0.3%              | 0.9% | -0.6%              | 1.5% |
| Japan           | 1.7% | 0.4%               | 1.0% | -0.1%              | 1.2% |
| Non-OECD        | 4.0% | 0.1%               | 3.8% | -0.3%              | 4.0% |
| China           | 5.2% | -0.2%              | 4.7% | -0.4%              | 4.2% |
| India           | 6.3% | 0.3%               | 6.1% | -0.9%              | 6.5% |
| Brazil          | 3.0% | 1.3%               | 1.8% | 0.6%               | 2.0% |

Big upward revision to US & Brazil; but Eurozone, China and UK weak, and 2024 outlook not encouraging; India to continue to expand robustly

## World economy: OECD GDP forecasts – November 2023

| CPI Inflation                  | 2023         |       | 2024         |       | 2025         |
|--------------------------------|--------------|-------|--------------|-------|--------------|
| <i>G20</i>                     | <b>6.2%</b>  | 0.1%  | <b>5.8%</b>  | 1.1%  | <b>3.8%</b>  |
| <i>OECD</i>                    | <b>7.4%</b>  | 0.5%  | <b>5.3%</b>  | 1.0%  | <b>3.9%</b>  |
| United States                  | <b>3.9%</b>  | unch  | <b>2.8%</b>  | 0.2%  | <b>2.2%</b>  |
| Euro area                      | <b>5.5%</b>  | -0.3% | <b>2.9%</b>  | -0.3% | <b>2.3%</b>  |
| Japan                          | <b>3.2%</b>  | 0.4%  | <b>2.6%</b>  | 0.6%  | <b>2.0%</b>  |
|                                |              |       |              |       |              |
| <b>Fiscal balance</b>          | <b>-4.8%</b> | -1.2% | <b>-4.3%</b> | -1.2% | <b>-4.0%</b> |
| <b>World real trade growth</b> | <b>1.1%</b>  | -0.5% | <b>2.7%</b>  | -1.1% | <b>3.3%</b>  |

Key aspects: inflation to remain elevated in EM (mostly Argentina and Turkey), ebb elsewhere; global trade growth revised down sharply; and above all a sharp deterioration in budget deficit forecasts

## World economy: key factors

- A semblance of normality has returned, but VUCA (Volatility, Uncertainty, Complexity & Ambiguity) remains the watchword in outlook terms
- World economy in big transition due to short, medium & long-term factors
- Nearly all 'constants' has become a 'variable', a recipe for volatility, due to uncertain outlook as world economy moves to a new paradigm
- 'Just In Time' production management in tatters; 'Just In Case' now the rule
- We are moving on from serial demand and supply shocks, but fracturing of global trade both due to 'de-risking' and geopolitical tensions remains a key supply chain risk, above all for the energy transition
- Drought and other weather events , i.e. Climate Change an embedded reality, El Nino potentially very disruptive in 2024
- Geopolitics: Russia invasion of Ukraine accelerating fracturing of global economy, payments & trade financing systems
- Israel/Hamas war: Arab Spring type unrest a bigger risk than wider conflict?

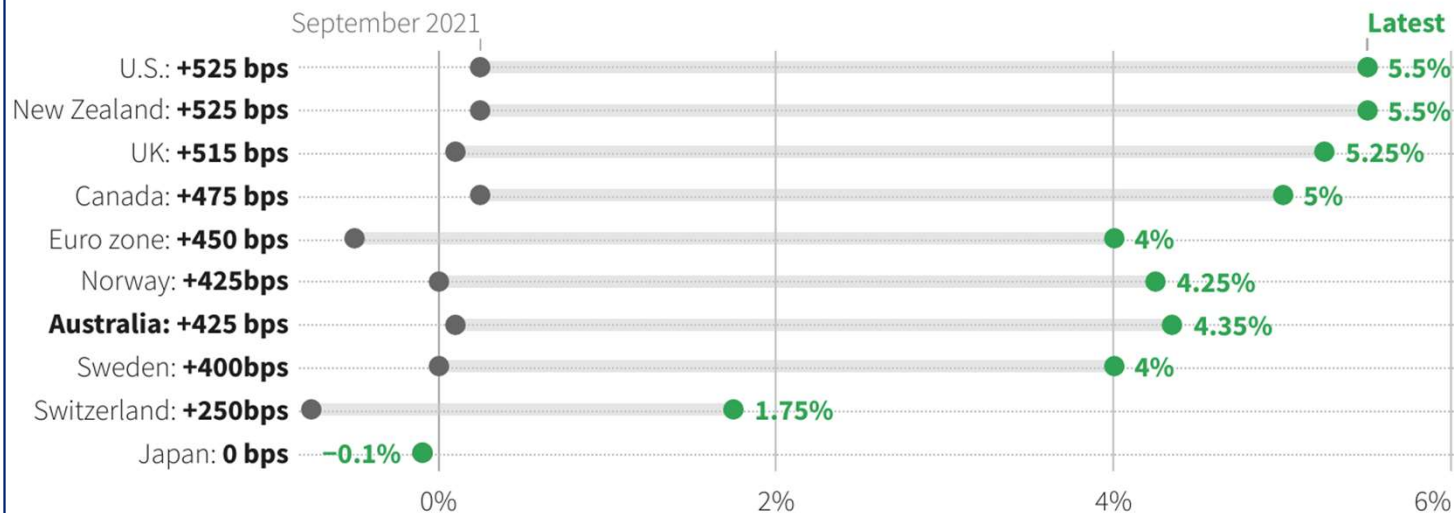
## Economic and post pandemic related risks

- Inflation a challenge to consumer spending and business planning; initial pricing power has morphed into demand destruction and margin squeeze
- Raising interest rates sharply has been a very blunt sword to combat structural supply side inflation; fiscal policy should be working in tandem, but post Covid debt levels and escalation in debt service costs a key challenge
- Lagged effects of rate hikes to have bigger impact in 2024, as more households and companies need to refinance; Commercial Real Estate already in trouble, not just in China, but also Europe and North America
- Exposed weaknesses partly a function of modern political cycle, embedding short-termism (for political gain); toxic private sector lobbying also an issue
- Demographic shifts have accelerated, labour skills shortages will speed up automation and digitalization, above all (and not before time) in commodities
- Energy prices likely volatile in 2024, initial risk downside

# At the peak in the race to raise interest rates

## The race to raise rates

Change in policy rates by central banks overseeing the 10 most traded currencies

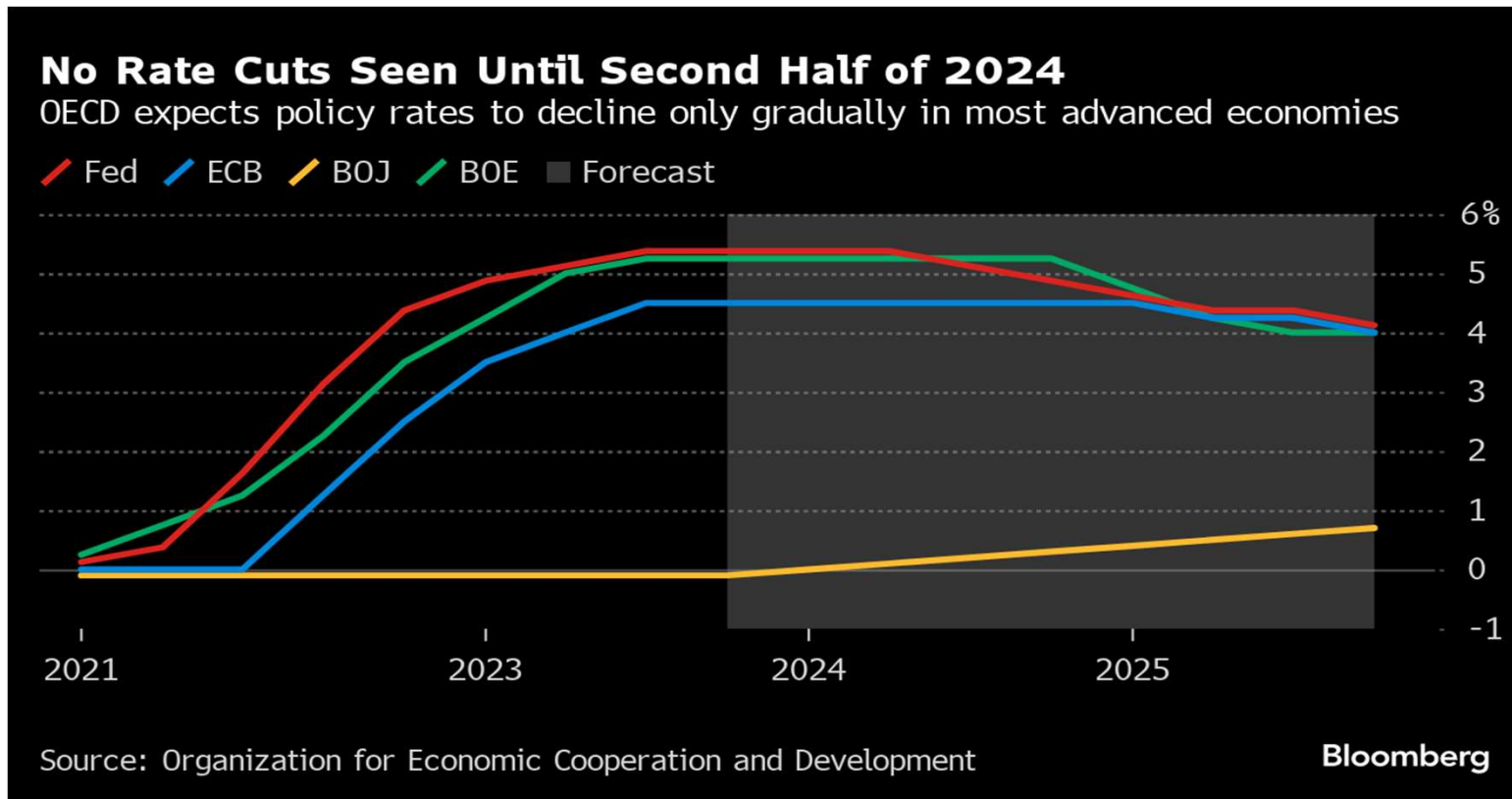


Note: As of November 7, 2023.

Source: LSEG Datastream | Reuters, November 7, 2023 | By Sumanta Sen

Expectations on timing of rate cuts will remain volatile and very fluid, and by extension fuel some volatility in FX cross rates

## But rate cuts some way off, and likely ‘modest’



OECD and markets factoring in Fed cutting before ECB – may prove to be the other way around, BoE seen lagging

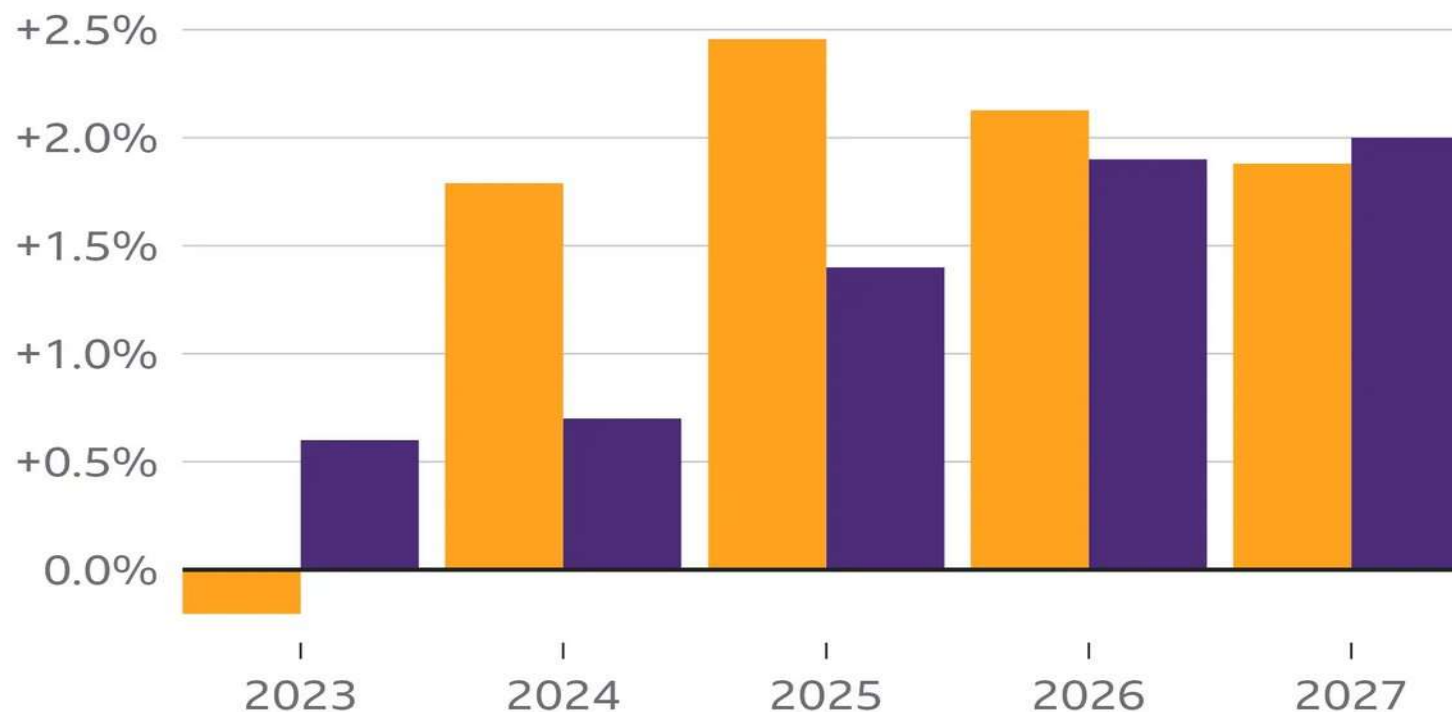


## UK growth outlook... in a word 'sluggish'

### UK economic growth revised down

Annual real GDP growth, OBR forecasts

■ Mar 2023 forecast ■ Nov 2023 forecast

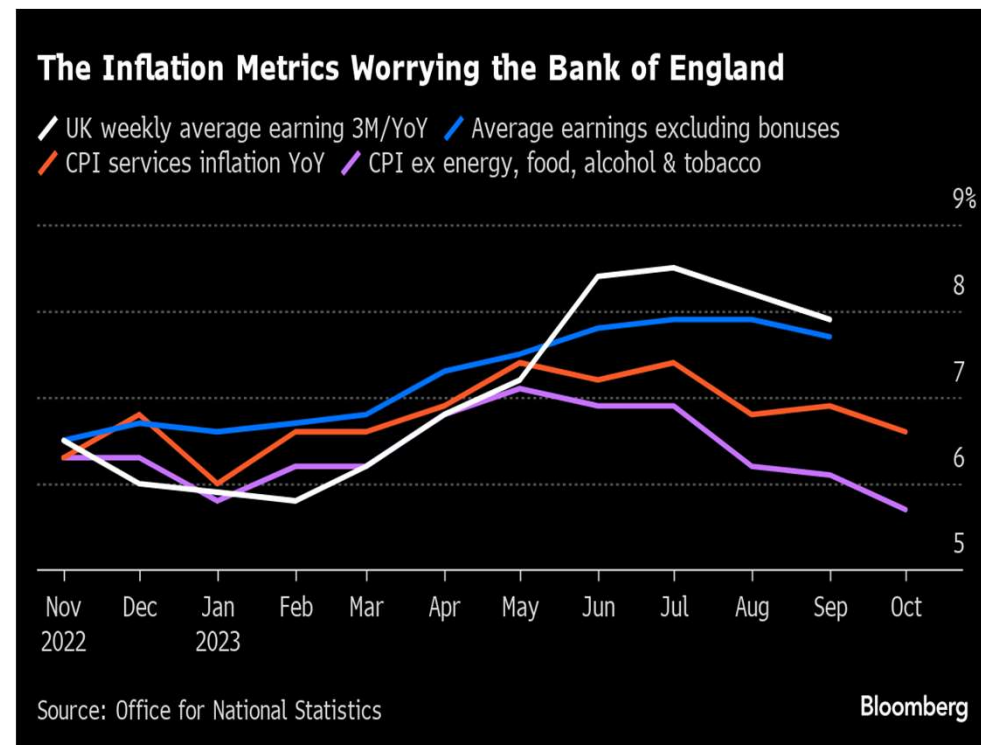
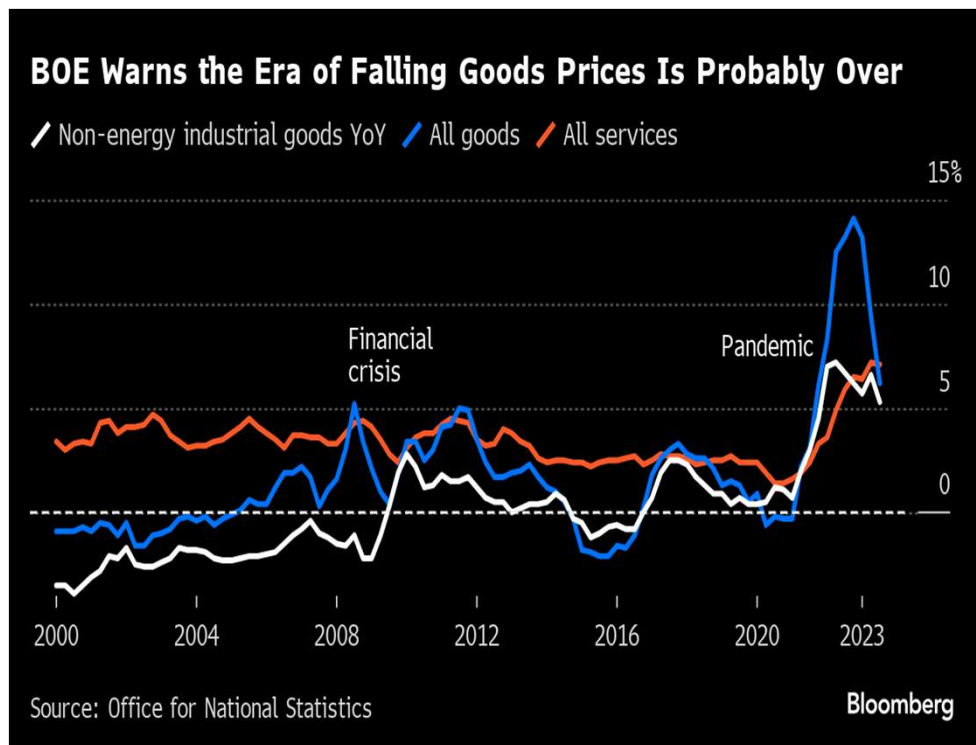


Source: Office for Budget Responsibility, Office for National Statistics

**B B C**



# UK Inflation down from peak, but path to 2.0% challenging



## The UK's challenges

- Brexit and political instability – very adverse headwinds for investment, above all uncertainty about fiscal and legislative outlook, and ‘red tape’
- Over dependence on imports of goods, above all in a world which is fracturing and bifurcating, this is not a good time to be ‘going it alone’
- Labour skills shortages exacerbated both by Brexit, demographics as ‘baby boomers retire, prohibitive cost of child care, all adding to an already poor trend in labour productivity since the global financial crisis (GFC)
- High tax burden to GDP ratio, with very little relief in prospect, erratic public sector infrastructure investment, extending a trend since WWII
- Growth in UK real wages has been negligible since GFC
- UK financial sector ‘might’ fading, capital shifting to Asia and GCC
- A change of government as implied by opinion polls would offer hope for stability.... But cannot rule out another change of PM before election!
- If as polls suggests Labour wins General Election, the post election honeymoon will be very brief

# BRICS+: cold hard reality of energy/commodity power

| Coal, Oil, Gas Production: BRICS-10   |               |              |               |              |                |              |
|---|---------------|--------------|---------------|--------------|----------------|--------------|
| (Production volume in 2021)   |               |              |               |              |                |              |
|   | Coal          | %            | Oil           | %            | Gas            | %            |
|   | exajoules     | World        | 000 b/day     | World        | billion cu m   | World        |
| <b>BRICS members:</b>   |               |              |               |              |                |              |
| Brazil  | 0.12          | 0.1%         | 2,987         | 3.3%         | 24.3           | 0.6%         |
| Russia  | 9.14          | 5.5%         | 10,944        | 12.2%        | 701.7          | 17.4%        |
| India   | 13.47         | 8.0%         | 746           | 0.8%         | 59.3           | 1.5%         |
| China   | 85.15         | 50.8%        | 3,994         | 4.4%         | 209.2          | 5.2%         |
| South Africa  | 5.55          | 3.3%         | -             | -            | -              | -            |
| <i>New, 24 August 2023</i>  |               |              |               |              |                |              |
| Argentina   | -             | -            | 627           | 0.7%         | 38.6           | 1.0%         |
| Egypt   | -             | -            | 608           | 0.7%         | 67.8           | 1.7%         |
| Iran  | 0.04          | 0.0%         | 3,620         | 4.0%         | 256.7          | 6.4%         |
| Saudi Arabia  | -             | -            | 10,954        | 12.2%        | 117.3          | 2.9%         |
| United Arab Emirates  | -             | -            | 3,668         | 4.1%         | 57.0           | 1.4%         |
| <b>Total BRICS-10</b>   | <b>113.47</b> | <b>67.7%</b> | <b>38,148</b> | <b>42.4%</b> | <b>1,531.9</b> | <b>37.9%</b> |
| World total   | 167.58        | 100.0%       | 89,877        | 100.0%       | 4,036.9        | 100.0%       |
| Source: BP Review of World Energy 2022  |               |              |               |              |                |              |
| Notes: - = not available or a negligible amount<br>1 exajoule = 10 <sup>18</sup> joules of energy |               |              |               |              |                |              |

## Commodity price trends 2022-2023



Conference straw polls show very level of conviction on outlook for all commodity prices, far more 'don't knows' than bulls or bears

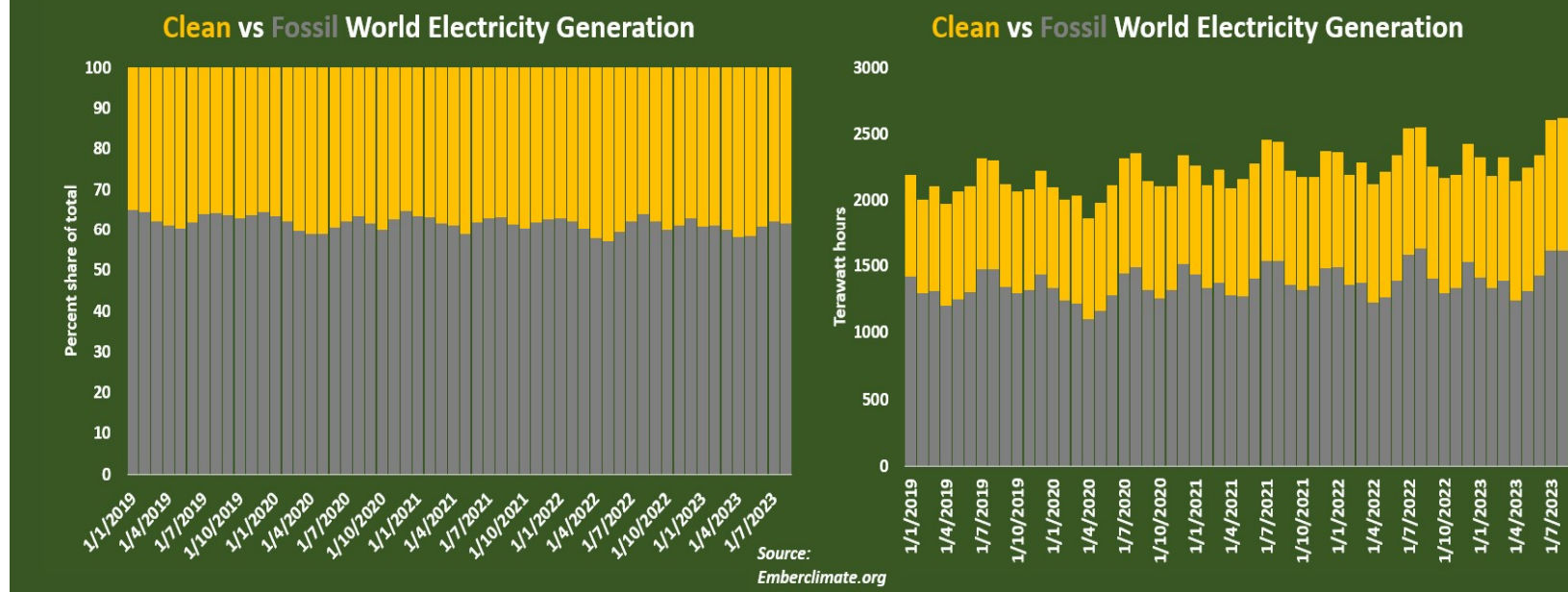
## Commodity price risks factors

- China: notable that despite weak economy, China demand for commodities and other raw materials has been relatively robust in 2023
- In theory demand for finished energy transition related goods should remain robust, and even accelerate, sustaining China demand and production
- US Inflation Reduction (IRA) and CHIPS acts have given a major boost to US demand, but risk of a 'fiscal cliff' as measures 'sunset' in 2024 election year
- Energy: assumption is European energy crisis is over, thanks to higher inventory levels and demand destruction, if early onset of winter continues, that assumption may be tenuous, but longer-term Gas glut increasingly a risk
- Be it Grains, Oilseeds or Oil: Brazil output marching higher, but infrastructure bottlenecks all too clear, above all rail and shipping escalating, no quick fix
- El Nino impact has been patchy, but South American contacts all warning that 2024 output on a knife edge, market discounting glut, could be the opposite
- Shipping already in recession... Shipping disruption risks rising: Panama Canal, Red Sea.... Straits of Hormuz always a concern



## Power sector key element in energy transition

Fossil fuels remain the primary source of global electricity despite steep gains in clean power output



In effect this chart says that very rapid growth in clean energy output is only just about keeping up with overall power demand growth....

## Green recovery and Climate change agenda

- Linear ideological thinking is still dominant, much more attention to pragmatic, systemic realities needed
- ESG, Climate change activism & windfall taxes pressure on oil & gas majors also likely to cut future hydrocarbon investment.. prematurely
- But regulatory clampdown on Tobacco over decades a salutary example of how financing challenges may be modest, current 'big oil' M&A mania suggests none, but will lower future E&P, mitigating stranded asset risks
- Renewables need huge investment in storage and distribution networks, massive upscaling of capacity, quantum leap in technology. A big opportunity but requires a lot of hydrocarbons and scarce water!
- Food vs. Fuel on the backburner at the current juncture
- Developed vs EM priorities, and are/will consumers willing /able to pay?
- Emissions monitoring challenges: lack of standardized measurement methodologies, difficulties in data collection, above all traceability, how to integrate sustainability data into trading systems without disruption.





**Any questions?**

**ADM ISI ‘The Ghost In The Machine’  
current issue & archive:**

**<https://admisi.com/customer-services/the-ghost-in-the-machine>**

**We always welcome external guest contributions !**