

# WORLD ECONOMIC OUTLOOK

## FINANCIAL MARKETS - WORLD FINANCIAL STATE – CHINA - POTUS 2024 - UKRAINE WAR

### HUGHES ECONOMICS (HE) – August 2024

Papers on the above topics are available on this website as are various spreadsheets in **xlsx** format. These spreadsheets are easily adaptable using different inputs for other scenarios.

Probability calculations below for the scenarios outlined are explained in **Probability Assessment** available at <https://doi.org/10.17265/2328-2185/2022.05.006> and also downloadable here. Other notes on the probability assessment methodology articulated in the previous article can also be downloaded from this website.

## FINANCIAL MARKETS

As stated previously, three possible scenarios are proposed for the next 6 months as listed below in order of increasing likelihood:

- **TINA:** There is no alternative, and the Dow rises significantly above 40,000.
- **BB:** Bubble bursts and Dow corrects to significantly below 30,000 or a 20%+ correction.
- **SQ:** Status Quo, no major moves for the Dow around 40,000 (currently 40,589).

**PROBABILITIES ON FINANCIAL MARKETS FOR THE NEXT 6 MONTHS**

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
TINA	Base = 1	1.00	1.00	0.047	0.037	0.042	4	8	Base	Base
BB	BB/TINA	10.00	12.00	0.465	0.448	0.456	46	44	10.86	11.50
SQ	SQ/BB	1.05	1.15	0.488	0.515	0.502	50	48	1.10	1.09
				<b>1.000</b>	<b>1.000</b>	<b>1.000</b>	<b>100</b>	<b>100</b>		

US GDP growth in Q2 was a healthy 2.8% and greater than the expected 2.1%. This is also good news for the **WFS** (see below).

## WORLD FINANCIAL STATE

Various "landings" from the previous high inflation state are possible as outlined below:

- **CL** or Crash Landing: Geopolitical events deteriorate and disrupt world trade leading to an economic collapse.
- **HL** or Hard Landing: Policy mistakes make for a world recessionary outcome.
- **NL** or No Landing: World economy drifts on with low growth, high interest rates and maybe a higher target inflation rate.
- **SL** or Soft Landing: Inflation tamed, world growth recovers with a favourable outlook, geopolitical concerns managed.

**PROBABILITIES ON THE WORLD FINANCIAL STATE FOR THE NEXT 6 MONTHS (no changes from previous)**

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
CL	Base = 1	1.00	1.00	0.132	0.062	0.097	10	5	Base	Base
HL	HL/CL	1.10	1.50	0.145	0.094	0.119	12	6	1.23	1.20
NL	NL/HL	2.00	3.00	0.289	0.281	0.285	28	20	2.39	2.33
SL	SL/NL	1.50	2.00	0.434	0.563	0.498	50	69	1.75	1.79
				<b>1.000</b>	<b>1.000</b>	<b>0.999</b>	<b>100</b>	<b>100</b>		

Mohamed El-Erian also assigns a 50% chance to a soft landing.

## CHINA'S ECONOMY

Possible scenarios for China in order of likelihood are:

- **BO:** The economy booms with 10% annual growth or boom.
- **BU:** The economy depresses even further or bust.
- **RE:** The economy shows a moderate recovery but slower growth than previously.
- **SW:** The economy goes sideways for a prolonged period.

**PROBABILITIES ON CHINA'S GROWTH PROSPECTS**

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
BO	Base = 1	1.00	1.00	0.031	0.016	0.023	2	2	Base	Base
BU	BU/BO	1.50	2.00	0.046	0.032	0.039	4	4	1.70	2.00
RE	RE/BU	4.00	5.00	0.185	0.158	0.172	17	21	4.41	4.25
SW	SW/RE	4.00	5.00	0.738	0.794	0.766	77	73	4.45	4.53
				<b>1.000</b>	<b>1.000</b>	<b>1.000</b>	<b>100</b>	<b>100</b>		

The current recession in the property sector has led to lower commodity prices for iron ore etc. A recovery in this sector may be needed to revive commodity prices worldwide. Meanwhile, lower commodity prices are good news for inflation. China's Third Plenum has just concluded with no major economic policy announcements. The **SW** scenario seems entrenched currently. It seems Chinese economic policy must prioritise continued CCP rule and not economics.

**POTUS 2024**

Major developments this month in the 2024 POTUS race. Currently, possibilities in likelihood order are:

- **K:** Kennedy or other Independent.
- **T:** Trump – now confirmed at the RNC.
- **H:** Harris – yet to be confirmed but now favoured to be the nominee by a majority of DNC delegates.

**PROBABILITIES ON POSSIBLE POTUS 2024 OUTCOMES**

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
K	Base = 1	1.00	1.00	0.016	0.011	0.014	1	2	Base	Base
T	T/K	30.00	40.00	0.480	0.460	0.470	47	45	33.57	47.00
H	H/T	1.05	1.15	0.504	0.529	0.516	52	53	1.10	1.11
				<b>1.000</b>	<b>1.000</b>	<b>1.000</b>	<b>100</b>	<b>100</b>		

**HE** still favours a Democratic win, but current betting markets have Trump in front. Much will depend on Harris's performance in the coming months, and she has been described as an "uneven campaigner". With the Democratic machine behind her this time, however, it could be a different story. Some polls already have her ahead in the popular vote but of course Trump lost this against Clinton yet still won the Presidency in 2016. US GDP growth at 2.8% for the second quarter is good news for incumbents. A stark choice, however, faces the USA in November. A Harris win would be good news for the world economy and Ukraine whereas a Trump win could signal more turmoil in world affairs.

**THE WAR IN UKRAINE**

In July, **HE** gave a 97% chance to a Labour government which did in fact eventuate. This month, we return to prospects for the war in Ukraine. Options in order of likelihood as previously are:

- **RS:** Russia successfully achieves its aim of reducing Ukraine to a puppet state, if not part of Russia itself.
- **RE:** Russia is forced to exit Ukraine but possibly with some territorial gains.
- **WW:** A "Weimar Triangle" of France, Germany and Poland prepares to help Ukraine – a wider war becomes possible.
- **STM:** A stalemate cements itself with battlelines little changed from those current, but all territories remain intact.

**PROBABILITIES ON POSSIBLE OUTCOMES TO THE WAR IN UKRAINE**

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
RS	Base = 1	1.00	1.00	0.045	0.031	0.038	4	5	Base	Base
RE	RE/RS	1.00	1.00	0.045	0.031	0.038	4	5	1.00	1.00
WW	WW/RE	4.00	5.00	0.182	0.156	0.169	17	16	4.45	4.25
STM	STM/WW	4.00	5.00	0.727	0.781	0.754	75	74	4.46	4.41
				<b>0.999</b>	<b>0.999</b>	<b>0.999</b>	<b>100</b>	<b>100</b>		

Putin's intransigence makes a wider war more likely. But the US will not want a wider war in the lead up to the election. This could be a trump card for Trump with his "I will end the war" pledge. Paradoxically, **HE** believes the world can live with **STM** although lives lost are clearly a tragedy. A wider war could prove problematic for the world economy.