

WORLD ECONOMIC OUTLOOK

WORLD FINANCIAL MARKETS - WORLD FINANCIAL STATE - TAIWAN - POTUS - WAR IN UKRAINE

HUGHES ECONOMICS (HE) – June 2023

The current review below calculates probabilities for Financial Markets outcomes, the situation over Taiwan, the possibility of another depression, China's direction in world affairs and the war in Ukraine. Papers as below are available on this website as are various spreadsheets in **xlsx** format. Calculations below use the **WEOjune.xlsx** spreadsheet and the **LoHiProbs.xlsx** methodology.

Probability calculations below for the scenarios outlined are explained in **Probability Assessment** available at the WEB address <https://doi.org/10.17265/2328-2185/2022.05.006>. A short summary article **Assessing Probabilities With Minimal Calculations** can be downloaded from this website as can the **Probability Assessment** paper above

WORLD FINANCIAL MARKETS (WFM)

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 to 40,000+.
- **SQ**: Status Quo, no major moves for the Dow in the range 30,000 – 35,000. Dow at 29/5 is 33,093.
- **BB**: Bubble bursts and Dow corrects to significantly below 30,000 or a 10%+ correction from current levels.

PROBABILITIES ON WORLD 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	0.032	0.020	0.026	3	2	Base = 1	Base = 1
SQ	SQ/TINA	10.00	12.00	0.323	0.245	0.284	28	15	10.92	9.33
BB	BB/SQ	2.00	3.00	0.645	0.735	0.690	69	83	2.43	2.46
				1.000	1.000	1.000	100	100		

The gap between **BB** and **SQ** narrows this month. Debt ceiling politics have yet to play out.

WORLD FINANCIAL STATE (WFS)

Scenarios in order of increasing likelihood are as follows:

- **MB** or Mild Boom: Revamping of world infrastructure sees markets rise for 10%+ gains.
- **D** or Depression: High inflation and continued COVID pressures, policy mistakes and global financial collapse.
- **SQ** or Status Quo: Stalemate in Ukraine, inflation cools, labour markets remain healthy.
- **MR** or Mild Recession: World activity falls, with problems from inflation, Ukraine, ESG factors & more costly supply chains.

PROBABILITIES ON THE WORLD FINANCIAL STATE FOR THE NEXT 6 MONTHS

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
MB	Base = 1	1.00	1.00	0.003	0.002	0.002	1	1	Base = 1	Base = 1
D	D/MB	10.00	12.00	0.027	0.020	0.023	2	4	11.50	2.00
SQ	SQ/D	4.00	5.00	0.108	0.097	0.103	10	12	4.48	5.00
MR	MR/SQ	8.00	9.00	0.862	0.881	0.872	87	83	8.47	8.70
				1.000	1.000	1.000	100	100		

The **WFS** has been rocked by recent upheavals in the world banking system. Just how far repercussions reverberate remains to be seen. World monetary policy is now more problematic. The chances of some form of a recession increase again this month.

TAIWAN

The scenarios for developments involving Taiwan from least to most likely are as follows:

- **TINO**: Taiwan invasion by mainland China with no aid from any country to help repel the invaders.
- **TIUS**: Taiwan invasion by mainland China and the US assists Taiwan in its defense, possibly with other allies.
- **NOTI**: No invasion of Taiwan but Chinese harassment of Taiwan continues.

Probabilities for the scenarios are calculated in the table following.

PROBABILITIES ON TAIWAN DEVELOPMENTS OVER THE NEAR FUTURE (No changes again this month)

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
TINO	Base = 1	1.00	1.00	0.038	0.020	0.029	3	5	Base = 1	Base = 1
TIUS	TIUS/TINO	5.00	7.00	0.192	0.140	0.166	17	21	5.72	5.67
NOTI	NOTI/TIUS	4.00	6.00	0.769	0.840	0.805	80	74	4.85	4.71
				0.999	1.000	1.000	100	100		

It seems paradoxical in Western logic for China to promote negotiations on Ukraine yet threaten Taiwan with invasion. But this could be a classic mistake of attributing your own logic/motives to your opponent.

POTUS 2024

This month we replace the China direction analysis with the US Presidential race in 2024. China appears extremely unlikely to change direction in the next few years. **HE** believes the US election at this point is a two-horse race between Biden and Trump with anyone else only a 5% chance at the moment as detailed in the table below.

- Other: Someone other than Biden and Trump emerges as a credible candidate
- Trump
- Biden

The order above is from least to most likely – the analysis follows.

PROBABILITIES ON POSSIBLE POTUS 2024 OUTCOMES

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
Other	Base = 1	1.00	1.00	0.067	0.043	0.055	5	n/a	Base = 1	Base = 1
Trump	Trump/Other	4.00	5.00	0.267	0.213	0.240	24	n/a	4.36	4.80
Biden	Biden/Trump	2.50	3.50	0.666	0.744	0.705	71	n/a	2.94	2.96
				1.000	1.000	1.000	100	n/a		

In the two-horse race, Biden is 71: 24 or 2.96:1 on or say 3:1 on to beat Trump. Anyone other than Biden or Trump becoming President is only a 19:1 against shot at this point. Note too that the pairwise more likely value of 2.5 above can be expressed as 5:2 odds for Biden over Trump.

THE WAR IN UKRAINE

The scenarios following are in line with *The Economist's* appraisals in a recent publication. In order of likelihood these are:

- **CRT**: A ceasefire is negotiated but on terms dictated by Russia.
- **CUT**: As for **CRT** but with Ukraine dictating the terms.
- **STM**: A stalemate cements itself with battlelines little changed from those currently operational.

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	%
CRT	Base = 1	1.00	1.00	0.100	0.070	0.085	9	5	Base = 1	Base = 1
CUT	CUT/CRT	1.50	1.90	0.150	0.133	0.141	14	17	1.66	1.56
STM	STM/CUT	5.00	6.00	0.750	0.797	0.774	77	78	5.49	5.50
				1.001	1.000	1.000	100	100		

This month **HE** has moderated the negotiations advantage for Ukraine over Russia and increased the pairwise range for **STM**.