

# LIVERPOOL INVESTMENT LETTER

December 2023



Cardiff Business School  
Ysgol Busnes Caerdydd

**Julian Hodge Institute of Applied Macroeconomics**



**LIVERPOOL RESEARCH GROUP IN MACROECONOMICS**

## LIVERPOOL RESEARCH GROUP IN MACROECONOMICS

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The Julian Hodge Institute was launched in autumn 1999 in a new collaboration between the Cardiff Business School of Cardiff University and Hodge. The aim of the Institute is to carry out research into the behaviour of the UK economy, and to study in particular its relationship with the other economies of Europe. The research has been particularly germane in recent years and has proved to be of significant social and political relevance as Europe has navigated the difficulties of the global financial crash, the Eurozone crisis and most recently the UK referendum on EU membership. The Liverpool Investment Letter is written by Patrick Minford, with the assistance of other members of the Group; in particular the emerging markets section is written by Anupam Rastogi, and the focus on Japan is written by Francesco Perugini. The Investment Letter is published monthly.

The Liverpool Research Group in Economics is pursuing a research programme involving the estimation and use of macroeconomic models for forecasting and policy analysis. The Group is now mainly based in Cardiff Business School, Cardiff University, and is indebted to the School and to the Hodge Foundation for their support. The Group's activities contribute to the programmes being pursued by the Julian Hodge Institute of Applied Macroeconomics. This Liverpool Investment Letter is typeset by David Meenagh and published on behalf of the group by Liverpool Macroeconomic Research Limited, which holds the copyright

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# THE HUNT AUTUMN STATEMENT — TOO LITTLE, TOO LATE, BUT BETTER THAN NOTHING

This Budget/Autumn Statement was a pathetic, but half-hearted apology to Liz Truss for being right on growth. Pretty much all the ideas in her plans for raising the growth rate were adopted where they did not cost any money — housing reform, freeports, tougher conditions on benefits. But how far will they be put into action? The record of action is weak — remember this government retreated from planning reform when the voters in Buckinghamshire revolted to the LibDems. As for the tax cuts part of the apology, they are far too hesitant to fire much growth at all.

Start with business tax cuts. Making 100% investment allowances permanent nowhere near offsets the raising of corporation tax to 25%. The reason is that it entirely misses the point of why business innovates which is to make a profit from new ways of doing things; that is now being taxed at 25% unless it involves an investment in ‘fixed capital’ when it will have some tax rebated. So even this sort of innovation will still face higher taxation. Meanwhile all the innovation, such as most in service industries that dominate British industry these days, involves little or no such investment in, needing instead expenditure on ideas and new skills. So based on our Cardiff model of growth, this expensing extension brings in perhaps about a 0.2% pa rise in productivity growth, whereas cutting corporation tax back to 19% would have pushed growth up by about 2% pa.

The extension of business rates tax relief and protection for small businesses is welcome but changes the growth prospect hardly at all. Why not abolish IR35 as part of this section? That would bring more entrepreneurs into the economy.

The cuts in the NI rates by 2% are welcome and do lower marginal tax rates on work. This will have a small but positive one-off effect on labour supply and so GDP, of 1%

**Table 1: Summary of Forecast**

	2019	2020	2021	2022	2023	2024	2025
GDP Growth <sup>1</sup>	1.6	-10.4	8.7	4.2	0.4	1.9	2.0
Inflation CPI	1.7	0.9	2.5	9.1	7.5	3.5	2.0
Wage Growth	3.5	1.6	5.9	6.0	6.1	3.7	2.0
Survey Unemployment	3.8	4.5	4.5	3.7	3.8	2.9	2.8
Exchange Rate <sup>2</sup>	78.3	78.2	81.4	79.1	79.4	79.1	79.0
3 Month Interest Rate	0.8	0.2	0.1	2.0	5.0	4.3	3.0
5 Year Interest Rate	0.6	0.1	0.8	2.5	4.3	4.2	3.0
Current Balance (£bn)	-63.3	-67.5	-34.3	-93.9	-25.4	-14.7	1.5
PSBR (£bn)	64.3	312.9	121.1	130.5	95.6	38.3	23.5

<sup>1</sup>Expenditure estimate at factor cost

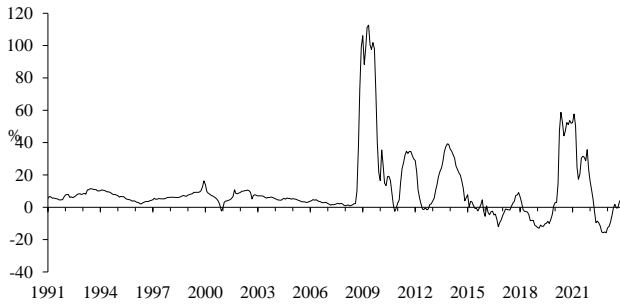
<sup>2</sup>Sterling effective exchange rate, Bank of England Index (2005 = 100)

according to our model. The problem is that by the inflation stealth tax from not indexing tax thresholds, marginal tax rates have climbed sharply, with a fifth of taxpayers due to pay the top 40% rate by 2027/8 according to the IFS. This will have a severe disincentive effect on innovation, being perfectly designed to hit entrepreneurial marginal income. It is now urgent to bring back indexation and to reverse these effects of previous non-indexation.

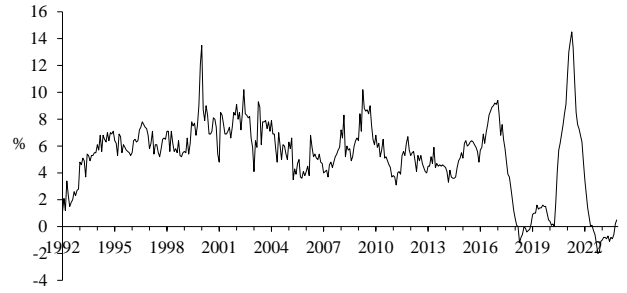
It is ironic in the extreme that a full-blooded reversal of our ruinous rise in tax rates was prevented by the fear of excessive debt. The present high tax rates, by stopping growth, ensure long run fiscal ruin, the debt/GDP ratio spiralling upwards out of control over the next decade. So by cutting rates now and restarting growth the fiscal outlook would massively improve. Another excuse was fear of igniting inflation; but improving growth would reduce inflation by increasing supply.

This government has been following damaging short-termist policies that have destroyed growth. It is beginning to realise the urgent need to roll them back. But this rewind is too little, too late, if better than nothing. More must follow- and soon.

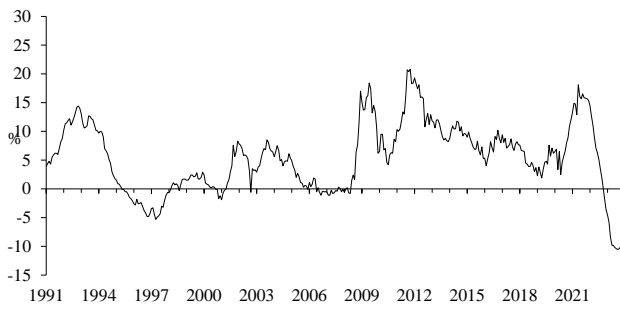
**U.S.: Growth in M0 (Yr - on - Yr)**



**UK: Notes and Coins in Circulation Growth**



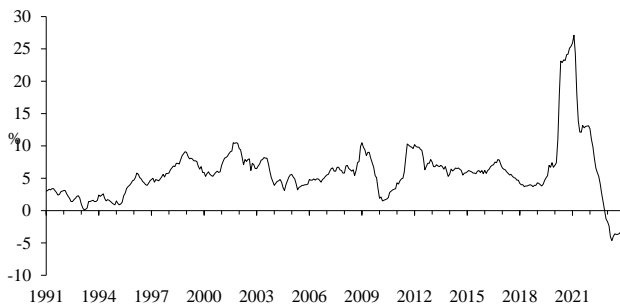
**U.S.: Growth in M1 (Yr - on - Yr)**



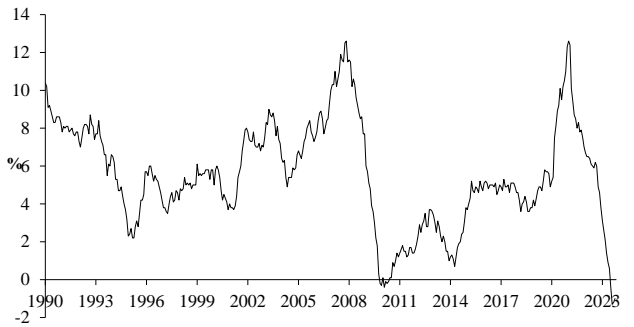
**UK: M4 Growth**



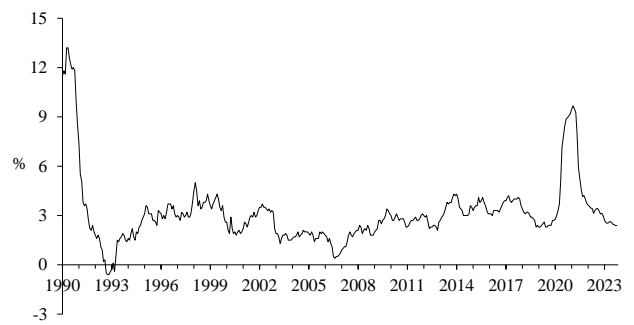
**U.S.: Growth in M2 (Yr - on - Yr)**



**Eurozone M3 Growth**



**Japan: Growth of M2+CD's**



## FOCUS ON JAPAN

Francesco Perugini

### Japan's Economy is Contracting While Prime Minister Approval is Plummeting.

Japan's economy shrank at its fastest annualized quarterly pace in two years in the July–September period as rising domestic inflation weighed on consumer demand, adding to export woes as demand waned. Both declines were Japan's first in four quarters and are part of an unstable trend since the start of the Covid-19 pandemic in early 2020 that has seen periods of economic expansion alternating with contraction. Provisional GDP fell 0.5% in the third quarter compared to the previous quarter (q-o-q), after expanding 1.1% q-o-q in April–June. This was its biggest contraction since the third quarter of 2021. The GDP deflator in the third quarter stood at 5.1% on an annualized basis.

The weaker GDP outturn was partly driven by weaker than expected domestic capital expenditure, which contracted 0.6% in the third quarter from the second quarter — as opposed to expectations for a 0.3% expansion, according to the same government release. “The biggest drag on activity came from stock building, which subtracted 0.3 percentage points from GDP growth last quarter. Even so, it's worth noting that there was a concurrent, broad-based decline in private demand,” said Marcel Thieliant, from Capital Economics. Private consumption in Japan was flat in the third quarter from the previous quarter, as domestic and foreign demand weighed on the economy. “With real household incomes set to fall at least until the middle of next year, that bodes ill for consumer spending, which we expect to grind to a standstill next year,” Thieliant added. Economic activity in the previous two quarters got a boost from recovering exports and inbound tourism. Social restrictions related to the COVID-19 pandemic have gradually eased, allowing for more travel and a fix to the crimped supply chain for production. Exports managed to rise by 0.5% q-o-q in the latest quarter, in contrast to a 3.2% rise in the second quarter. Auto exports have recovered after stalling over the shortage of computer chips and other parts. Also adding to exports was tourism revenue. Also, public demand, which includes government spending, rose by 0.2 percentage points q-o-q.

Both the government and the monetary authorities are trying to sustain the economy with various policy initiatives. The Bank of Japan (BOJ) is continuing with the super-easy monetary policy it has pursued for years, with zero or below-zero interest rates aimed at energizing an economy long beset by deflation, and the stagnation that has plagued Japan with its aging and shrinking population. More recently, prime Minister Fumio Kishida has pushed a ¥17 trillion stimulus package (about 3.5% of GDP), including tax cuts and household subsidies. A supplementary budget for its funding recently won parliamentary approval. It also bolsters the case for the

Japanese government's ¥13.2 trillion economic package (about 2.8% of GDP) aimed at curbing rising living costs. It's expected to feature subsidies and payouts to low-income households to mitigate soaring energy and utility bills.

However, according to a recent poll by Asahi Shimbun, a leading Japanese newspaper, the approval rating for Prime Minister Fumio Kishida's Cabinet has fallen to 25%, the lowest level for any administration since the Liberal Democratic Party (LDP) returned to power in 2012. His disapproval rating is equally alarming at over 50%, reaching more than two-thirds of those polled in some surveys. An equal proportion of those who disapproved did so because of low expectations of government policies, in particular the Kishida administration's proposed tax cut.

On November 2, the Kishida cabinet approved a comprehensive economic stimulus package that includes a fixed ¥40,000 per capita income tax cut and benefits for low-income households, among other measures aimed at combating high prices and encouraging sustained wage hikes. The cost estimate of the package is estimated to be over ¥17 trillion, with a ¥13.1 trillion general account supplementary budget for fiscal year 2023 compiled as a source of funds. The political fall-out from the tax cut has been far from positive, however. It is widely viewed as a transparent political ploy to regain popular support for the government and for the prime minister himself — a necessary condition for Kishida to call a lower house election (due by October 2025) and to ensure his own re-election as LDP president in September 2024. Voters are describing the tax cut as a political handout to “buy” votes in a general election that Kishida can call at any time.

The problems and blatant contradictions in Kishida's fiscal policies are also being pointed out by elements from within his own government. Another of Kishida's alleged failings on the tax measures is the fact that he did not consult sufficiently with other big powers in the party, including LDP Vice President Aso Taro. In short, Kishida went out on a limb in devising the policy out of blatant political self-interest instead of consulting with other LDP big wigs. The outcome has been growing unease within the party about Kishida's leadership as both LDP president and prime minister, particularly when later polls have shown that two-thirds disapprove of the prime minister's pump-priming package and one-third want him to resign immediately.

The embattled premier has now rejected the option of seeking a fresh voter mandate sooner rather than later, with the media forecasting that he will seek an opportunity to call a snap election perhaps in the spring or later next year ahead of the LDP leadership race in September in order to ensure his uncontested re-election as party president. The

growing LDP consensus is that it may take a while for the administration to recover its lost political ground.

A recent Cardiff working paper ([https://carbsecon.com/wp/E2023\\_13.pdf](https://carbsecon.com/wp/E2023_13.pdf)) finds evidence that Japan's economy has been undermined by irrational business pessimism, suggesting that systematic fiscal

stimulus could contribute to eliminating its endemic stagnation. Unfortunately, the fiscal pattern has been occasional fiscal stimulus followed at a later date by a contractionary rise in consumer taxes to reduce debt. This stop-go pattern has failed to help monetary policy in its mission to end stagnation.

## MARKET DEVELOPMENTS

The Bank has raised interest rates continuously over the recent past, causing money and credit to fall, a big sign of potential overkill. There is a strong risk of a sharp recession. This will force rates back down, and provide belated relief to both the gilts and equity markets.

**Table 1: Market Developments**

	Market Levels		Prediction for Nov/Dec 2024	
	Nov 6	Dec 9	Previous Letter	Current View
<b>Share Indices</b>				
UK (FT 100)	7418	7555	7574	7879
US (S&P 500)	4366	4585	4680	4915
Germany (DAX 30)	15136	16759	19253	19843
Japan (Tokyo New)	2360	2324	3231	3131
<b>Bond Yields (government)</b>				
UK	4.32	4.04	4.00	4.00
US	4.63	4.23	3.50	3.40
Germany	2.70	2.27	2.20	2.20
Japan	0.88	0.77	0.50	0.50
UK Index Linked	1.22	1.00	1.00	1.00
<b>Exchange Rates</b>				
UK (\$ per £)	1.24	1.25	1.20	1.20
UK (trade weighted)	81.16	81.79	77.9	77.3
US (trade weighted)	111.57	109.80	113.2	113.2
Euro per \$	0.93	0.93	0.98	0.98
Euro per £	1.15	1.16	1.18	1.18
Japan (Yen per \$)	149.74	144.51	140.0	140.0
<b>Short Term Interest Rates</b>				
UK	5.37	5.34	4.00	4.00
US	5.64	5.63	4.30	4.30
Euro	3.96	3.97	3.00	3.00
Japan	-0.03	-0.03	0.10	0.10

**Table 2: Prospective Yields<sup>1</sup>**

Equities: Contribution to £ yield of:						
	Dividend Yield	Real Growth	Inflation	Changing Dividend Yield	Currency	Total
UK	2.10	1.0	3.0	-3.00		3.40
US	2.00	1.2	3.0	3.00	4.34	13.54
Germany	2.10	0.4	3.0	15.00	-0.96	19.54
Japan	1.90	0.9	1.8	32.00	7.32	43.92
UK indexed <sup>2</sup>	1.00		3.0	16.00		20.00
Hong Kong <sup>3</sup>	2.60	4.8	3.0	-21.00	4.34	-6.26
Malaysia	3.30	3.8	3.0	35.00	4.34	49.44
Singapore	3.50	0.7	3.0	-8.00	4.34	3.54
India	1.40	7.2	3.0	17.00	4.34	32.94
Korea	1.10	2.0	3.0	-28.00	4.34	-17.56
Indonesia	2.20	4.7	3.0	21.00	4.34	35.24
Taiwan	2.80	1.8	3.0	8.00	4.34	19.94
Thailand	3.20	2.6	3.0	17.00	4.34	30.14
Bonds: Contribution to £ yield of:						
	Redemption Yield	Changing Nominal Rates		Currency		Total
UK	4.04	0.43				4.47
US	4.23	8.26		4.34		16.82
Germany	2.27	0.68		-0.96		1.99
Japan	0.77	2.72		7.32		10.81
Deposits: Contribution to £ yield of:						
	Deposit Yield	Currency		Total		
UK	5.34			5.34		
US	5.63	4.34		9.97		
Euro	3.97	-0.96		3.01		
Japan	-0.03	7.32		7.30		

<sup>1</sup> Yields in terms of €s or \$s can be computed by adjusting the £-based yields for the expected currency change.

<sup>2</sup> UK index linked bonds All Stocks

<sup>3</sup> Output based on China.

**Table 3: Portfolio(%)**

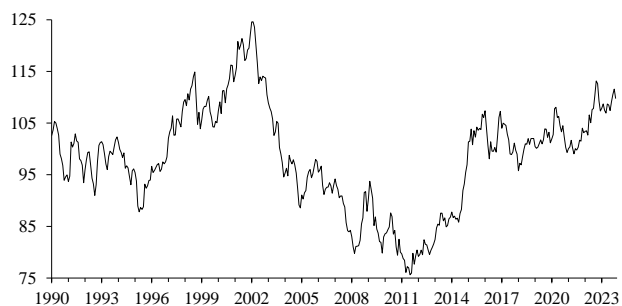
	Sterling Based Investor		Dollar Based Investor		Euro Based Investor	
	November Letter	Current View	November Letter	Current View	November Letter	Current View
UK Deposits (Cash)	5	5	5	5	1	1
US Deposits	-	-	-	-	-	-
Euro Deposits	-	-	-	-	-	-
Japanese Deposits	-	-	-	-	-	-
UK Bonds	-	-	-	-	-	-
US Bonds	-	-	-	-	-	-
German Bonds	-	-	-	-	-	-
Japanese Bonds	-	-	-	-	-	-
UK Shares	19	19	14	14	17	17
US Shares	14	14	19	19	16	16
German Shares	14	14	14	14	21	21
Japanese Shares	9	9	9	9	11	11
Hong Kong/Chinese Shares	4	4	4	4	4	4
Singaporean Shares	4	4	4	4	4	4
Indian Shares	4	4	4	4	4	4
Thai Shares	3	3	3	3	3	3
South Korean Shares	4	4	4	4	4	4
Taiwanese Shares	4	4	4	4	3	3
Brazilian Shares	4	4	4	4	3	3
Chilean Shares	4	4	4	4	3	3
Mexican Shares	4	4	4	4	3	3
Peruvian shares	4	4	4	4	3	3
Other:						
Index-linked bonds (UK)	-	-	-	-	-	-

# INDICATORS AND MARKET ANALYSIS

## FOREIGN EXCHANGE MARKETS

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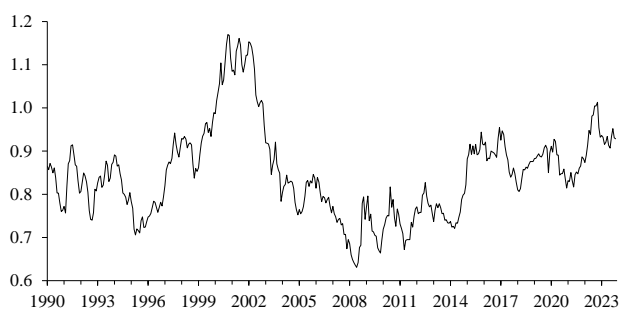
**US : Trade Weighted Index  
(Bank of England 1990 = 100)**



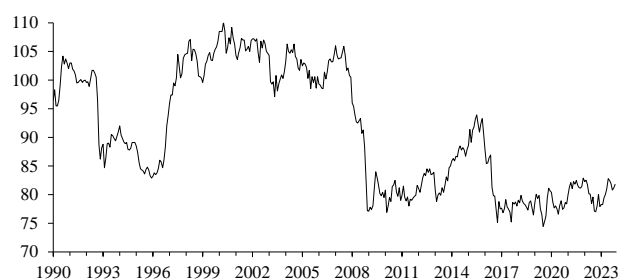
**UK: Dollars Per Pound Sterling**



**Euro per US dollar**



**UK: Trade-Weighted Index  
(Bank of England 1990 = 100)**



**Japan : Yen Per U.S. Dollar**

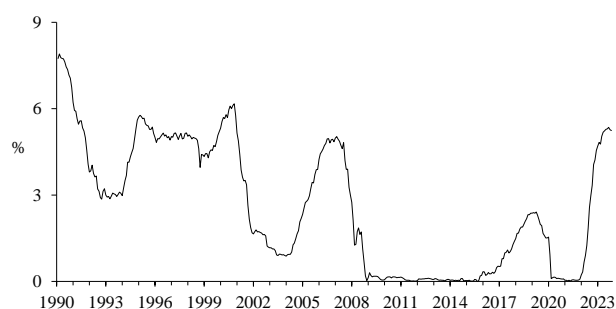


# GOVERNMENT BOND MARKETS

**U.S.: Yield on Long-Term Government Bonds**



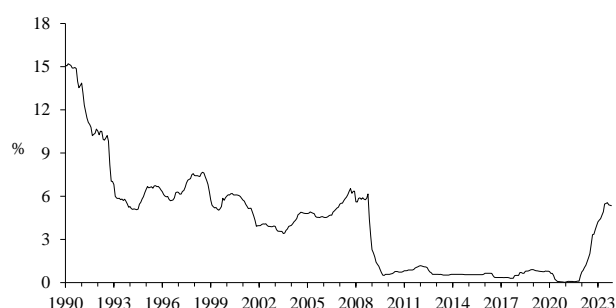
**U.S. : 3-Month Treasury Bill**



**U.K.: Yield on Long-Term Government Bonds**



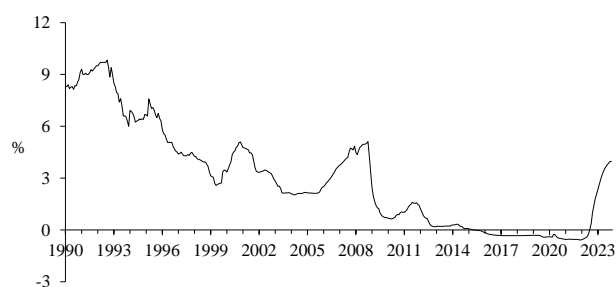
**U.K. : 3-Month Certificate LIBOR Rate**



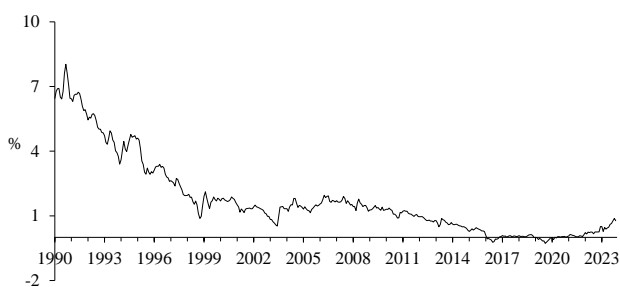
**Germany: Yield on Public Authority Bonds**



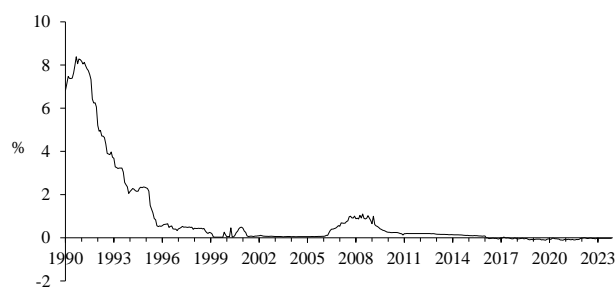
**Germany : 3-Month Interbank Deposit Rate**



**Japan: Yield on Long-Term Government Bonds**



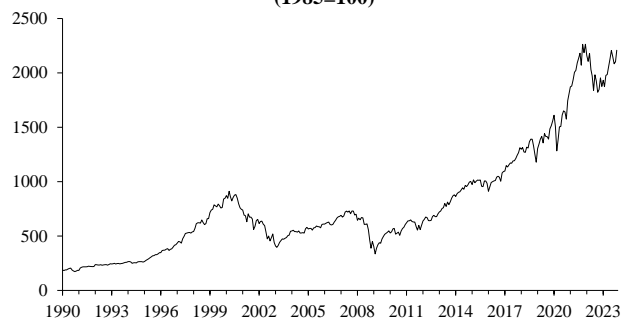
**Japan : 3-Month Money Market Rate**



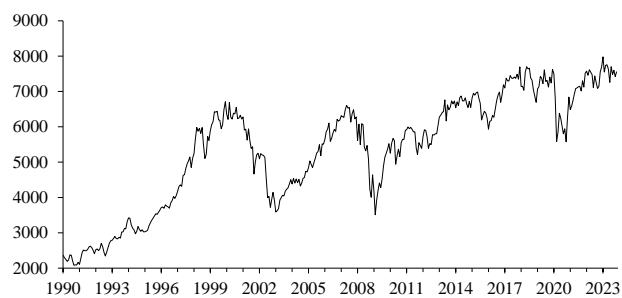
## MAJOR EQUITY MARKETS

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**U.S. : S & P 400 Industrial  
(1985=100)**



**U.K. : FTSE-100 Index  
(10 April 1962=100)**



**Germany : DAX 30**



**Japan : Tokyo S.E. New  
(1985=100)**



# EMERGING MARKETS

Anupam Rastogi

## India

The Indian economy has displayed remarkable resilience and growth, recording a robust 7.6% expansion in the second quarter of the current fiscal year, building on the impressive 7.8% growth achieved in the preceding quarter. This upward trajectory can be attributed to the collective influence of a thriving manufacturing sector, strategic government expenditures, and the advantageous presence of inexpensive Russian oil. These factors have acted as tailwinds, countering the challenges posed by elevated crude oil prices.

Integral to this economic upswing is a vigorous surge in investments, bolstered by the government's proactive capital expenditure initiatives, coupled with a remarkable 10-quarter high in Government consumption, soaring at 12.4% YoY. It has effectively offset sluggish private consumption and a broader trade deficit. Structural changes and a fortuitous alignment of factors have prompted a revision in our growth forecast for the fiscal year 2023–24 and the medium term, with an anticipated growth rate of 7% in the current fiscal year and a further uptick to 7.2% in the subsequent fiscal year. Looking ahead, we project sustained growth at a rate of 7% in the medium term.

The strategic utilization of inexpensive Russian oil, constituting approximately 45% of total oil imports, has played a pivotal role in curbing inflationary pressures and supporting the initiatives of India's central bank. The headline retail inflation rate declined to 4.9% in October from the previous month's 5%, primarily propelled by easing food inflation and a favourable base effect. We estimate an average retail inflation rate of 5.6% in the last quarter of 2023 and 5.3% for the fiscal year 2024. The expected decline in inflation is anticipated to be bolstered by a reduction in fuel prices in the coming months.

The Reserve Bank of India's monetary policy committee (MPC) has maintained a conservative stance, keeping key interest rates unchanged for the fifth consecutive time. It underscores persistent inflation risks as the central bank has set the lower and upper tolerance limits of 2% and 6% for inflation. During its announcement on December 8, the central bank held the repo rate steady at 6.5% and upwardly revised the GDP forecast for FY24 to 7%, up from the initial projection of 6.5%. The MPC remains committed to withdrawing accommodation to align inflation with the target while supporting overall economic growth.

India's merchandise exports exhibited resilience, growing by 6.2% YoY in October 2023 and 2.4% in the Aug–Oct'23 period, surpassing the pace of recovery in the rest of Asia. The cyclical rebound in engineering goods,

India: BSE Sensex



textiles, and pharmaceutical exports positions India's merchandise exports for further acceleration in FY24 and into FY25. The services trade surplus expanded by 21.7% YoY in Apr–Oct'23, which likely narrowed the current account deficit to about 0.7% of GDP for FY24. We estimate a further shrinkage to 0.4% of GDP in FY24.

In the currency arena, while global currencies have weakened against the dollar, the Indian Rupee has maintained strength, reflecting the favourable conditions prevailing in India. Projections suggest that the INR/USD rate will stay above 83.5, with a modest depreciation of only 2% in FY25 and 1.2% in the subsequent year.

A robust expansion in manufacturing and investment activities in the last quarter has translated into strong corporate earnings, propelled by significant government-led capital expenditure and a resurgence in real estate demand. Increasing capacity utilization and healthy corporate and banking balance sheets set the stage for a steady recovery in private capital expenditure, epitomized by the stability of the national currency. This resilience is particularly noteworthy considering the Rupee's significant depreciation against last year's dollar.

India's stock market has experienced a remarkable rally, outperforming major global indices. The impetus behind this surge is grounded in rapid economic growth, diminishing inflation, a politically stable environment, and a burgeoning tech sector. With the world's largest and youngest population and a substantial influx of manufacturing investment diversifying away from China, India achieved a milestone by joining the exclusive club of countries with a market capitalization exceeding \$4 trillion.

Among the top 10 countries in market capitalization, India has recorded the second-fastest growth in dollar terms in 2023, following the United States. The driving forces behind India's market performance include robust earnings, macroeconomic stability, domestic capital inflows, and a noteworthy rally in small-cap and mid-cap stocks. Forecasts anticipate a 15% growth in corporate profits in

2024, followed by an additional 14% in 2025, showcasing broad-based growth across sectors.

The recent success of the ruling party, the BJP, in state elections, has injected positive momentum into the markets, allaying concerns of fiscal profligacy or political instability. The BJP has reaffirmed its commitment to a conservative fiscal policy, evidenced by the fiscal deficit being reined in at 4.9% of GDP during the fiscal year's first half. Despite an initial projection of 5.9% for the entire fiscal year 2023–24, the party's confidence rests on robust tax collection, growing at a cumulative rate of 15%.

Crucially, the BJP has effectively navigated the anti-incumbency factor through a robust technology platform provided by Aadhar ('base' in English), ensuring the efficient delivery of welfare schemes to farmers, women, and the economically disadvantaged. This targeted approach, free from leakages, has given the ruling party a significant electoral advantage. Prime Minister Modi attributes the party's success to an endorsement of his economic and welfare policies. The fortification of the social safety net has not only sustained rural demand but shielded it from the uncertainties of weather. Noteworthy is that these welfare schemes include monetary and non-monetary benefits, such as highly subsidized food items and healthcare facilities, contributing to their widespread acceptance and impact.

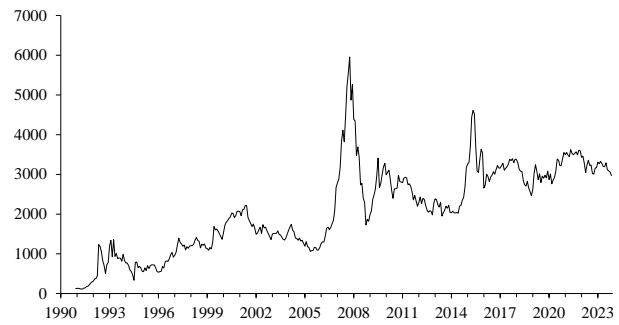
	22–23	23–24	24–25	25–26	26–27
GDP (%p.a.)	7.0	7.0	7.2	7.0	7.0
WPI (%p.a.)	6.5	5.3	5.0	4.2	4.0
Current A/c(US\$ bill.)	-67.0	-60.0	-13.0	0.0	0.0
Rs./\$(nom.)	81.0	83.5	85.0	86.0	86.0

## China

The enduring repercussions of the COVID-19 pandemic and China's assertive global stance are gradually shaping the trajectory of the Chinese economy. The debilitating impact of demographic shifts in China was exacerbated by Xi Jinping's economic and anti-market policies. Despite this, Xi has successfully reinforced the dominance of the Communist Party, steering China away from an imminent decline yet postponing its aspirations to lead the global economy indefinitely. In the foreseeable future, China is poised to evolve into a middle-income, one-party-governed developed economy, armed with formidable military strength akin to the USSR in the seventies. However, its path may echo the trajectory of the USSR in the seventies, marked by domestic financial repressive policies and the decline in the working-age population.

China's economic growth is projected at 5% for the current year, gradually tapering off in 2024 and 2025. Lingered challenges in the property sector and subdued external demand are anticipated to constrain Gross Domestic Product (GDP) growth to 4% in 2025. To buttress the economy, China approved a 1 trillion yuan (\$137 billion) sovereign bond issue and allowed local governments to

China: SSE Composite Index



frontload part of their 2024 bond quotas. In the third quarter of 2023, GDP growth was 4.9%. Despite aspirations for increased domestic consumption, Chinese authorities, ideologically opposed to generous healthcare and retirement benefits that might reduce the need to save, pursue a nuanced approach. We quote the IMF's First Deputy Managing Director, Gita Gopinath, after conclusion of Chapter IV consultation process of IMF, "I heard this from several authorities that they're not just interested in the headline number. They want the growth to be of high quality, for it to be sustainable, for it to be inclusive, and they are working on multiple fronts here."

For China, high-quality growth entails state-led decisions determining capital allocation, with over 2,000 "government guidance funds" established by central and local governments investing trillions of dollars in priority sectors. The manufacturing sector's official Purchasing Managers Index (PMI) dipped to 49.4 in November, marking the second consecutive month below the expansionary threshold of 50. A similar downturn was observed in the services sector, with the PMI sliding to 49.3 in November from 50.1 in October.

Deflationary pressures persist, exerting downward pressure on producer prices in China and contributing to a projected 0.7 percentage point reduction in global core goods inflation during the latter half of 2023. Because of currency weakness and capital outflows, China's central bank has kept key policy rates unchanged while injecting 1.45 trillion yuan (\$199.91 billion) into the market via the one-year medium-term lending facility. With exports growing modestly by 0.5% in November and imports declining by 0.6%, China grapples with deflationary trends, underscored by an 8.2% YoY contraction in goods exports in Aug-Oct'23.

The yuan hovers around the 7.11 mark, potentially rallying to approach the 7-per-dollar level, buoyed by perceptions that the dollar has peaked and a potential reversal in China's economic fortunes. As foreign capital exits China, with over \$160 billion withdrawn by foreign firms in six successive quarters through September, the leadership under Xi Jinping refrains from actively wooing back American businesses and investors. The U.S.-China tech war extends to critical minerals crucial for electric vehicles

and semiconductor production, with Beijing's payback for Washington's efforts to curtail Chinese access to advanced American semiconductors.

The diplomatic tone between Presidents Joe Biden and Xi Jinping oscillates between constructive dialogue and sharp criticisms, underscoring the complex dynamics of U.S.-China relations. Moody's assigned a negative outlook for China's sovereign debt rating while maintaining its A1 credit rating, reflecting the unease felt by foreign companies operating in China amidst heightened geopolitical tensions.

As the Communist Party's 24-member Politburo prepares to convene, shaping policies for 2024, the subsequent Central Economic Work Conference will delve into growth and development specifics. Any numeric annual goals are slated for release in March 2024, marking a crucial juncture for China's economic trajectory.

	22	23	24	25	26
GDP (%p.a.)	3.0	5.0	4.8	4.0	3.5
Inflation (%p.a.)	2.0	2.2	1.5	2.0	2.2
Trade Balance(US\$ bill.)	420.0	255.0	150.0	100.0	50.0
Rmb/\$(nom.)	6.8	7.2	7.4	7.6	7.8

## South Korea

South Korea's economy, ranking as Asia's fourth-largest, exhibited a more robust growth in the third quarter than initially anticipated, propelled by improvements in exports. Despite this positive trend, key economic indicators such as manufacturing output, retail sales, and facility investment experienced a decline in October. The subsequent quarters in 2023 are expected to grapple with sluggish consumption and investment, with the recovery in the manufacturing sector poised to counterbalance these challenges. However, the current landscape of financial tightening is exerting pressure on private consumption and investment.

The Bank of Korea has maintained its GDP growth projection at 1.4% for 2023, aligning with its earlier estimate, but offers a more optimistic outlook for 2024 with a projected economic growth of 2.1%. The central bank's forecast for inflation remains above its target of 2%, estimating 2.6% for 2024. To address the recent uptick in household debt and persistent inflation, the Bank will likely uphold restrictive policy settings in 2024. However, the anticipated economic slowdown may prompt a shift in the Bank's policy stance towards easing in the first half of the next year.

The Bank of Korea has maintained its key interest rate at 3.5%, adhering to a steady course for the seventh consecutive meeting. Despite this consistent stance, the bank has tempered its hawkish tone on interest rates, aiming to mitigate speculation regarding an early policy pivot, especially concerning concerns about stickier-than-expected inflation.

**Korea: Composite Index**



**Taiwan: Weighted TAIEX Price Index**



South Korea's outbound shipments demonstrated a positive trend, registering a 4.7% increase in November compared to last year. It comes on the heels of a 5.1% year-on-year growth in exports in October 2023, signalling a positive shift after enduring 13 consecutive months of contraction. The export landscape, particularly in semiconductors, has contributed to this resurgence.

South Korea's won is reaping the benefits of an export rebound and the evolving outlook for U.S. interest rates. The won has strengthened against the dollar, coupled with lower bond yields, further enhancing its position in the market.

Despite these economic dynamics, South Korea has the lowest fertility rate among OECD countries, with an expected lifetime births per woman of 0.85. In response, the government has introduced incentives to boost the fertility rate, recognizing that it may take up to 30 years to witness the benefits of these efforts. In the interim, proactive measures are crucial to address the implications of the current demographic trends on the country's future.

	22	23	24	25	26
GDP (%p.a.)	2.6	1.0	2.0	2.5	2.4
Inflation (%p.a.)	5.1	3.5	2.5	2.5	2.5
Current A/c(US\$ bill.)	50.0	40.0	35.0	30.0	30.0
Won/\$(nom.)	1450	1340	1300	1300	1400

## Taiwan

The government has downgraded Taiwan's economic outlook for 2023, citing weak exports as a primary concern. Despite a 2.32% year-on-year Gross Domestic Product

(GDP) expansion in the third quarter, the government has revised its growth estimate from 1.61% to 1.4%. In contrast, our forecast maintains a slightly more optimistic outlook, projecting growth rates of 1.5% in 2023 and 1.8% in 2024.

The Central Bank of Taiwan expresses apprehension about rising inflation and hints at the possibility of additional rate increases if inflationary pressures persist. Some board members believe high inflation could become a “new normal” in the future. The central bank anticipates inflation to reach 2.22% in 2023, with a subsequent decline to less than 2% in the following year. The next quarterly rate-setting meeting is scheduled for December 14.

Despite challenges in exports, Taiwan has shown resilience, with a relatively modest 2.8% year-on-year decline in exports during August–October 2023, compared to a more substantial 12.8% decline in January–October. The nation’s balance of payments in Q3 2023 indicates a current account surplus of US\$27.2 billion, expanding from US\$22.24 billion three months earlier. This widening surplus is attributed to faster declines in imports than exports, driven by sharp corrections in oil and raw material prices.

Tensions between Taiwan and China are rising, with President Xi cautioning President Biden against arming Taiwan and interfering in the upcoming election, favouring the Democratic Progressive Party (DPP). The surprise coalition between Taiwan’s main opposition, the Nationalist Party (Kuomintang), and the Taiwan People’s Party crumbled, increasing the likelihood of Taiwan remaining a central point of contention between the U.S. and China. While an all-out occupation of Taiwan by China seems unlikely due to economic and demographic challenges, cyberattacks from Beijing on the island have reportedly intensified.

Looking ahead, Taiwanese voters will play a crucial role in shaping the island’s future and influencing U.S.-China relations as they head to the polls on January 13 to elect a new president. The election outcome will have lasting implications for regional stability and global geopolitical dynamics.

	22	23	24	25	26
GDP (%p.a.)	2.5	1.5	1.8	2.0	2.3
Inflation (%p.a.)	2.9	2.2	1.6	1.4	1.2
Current A/c(US\$ bill.)	90.0	65.0	60.0	60.0	60.0
NT\$/\$(nom.)	32.0	32.2	32.0	31.5	31.0

## Brazil

Brazil’s Finance Ministry has adjusted its economic growth forecast for the current year and 2024, aligning more closely with our recent forecast of 3% growth in 2023 and 2% in 2024. Our positive outlook is grounded in the belief that the U.S. friendshoring policy will support Brazil’s economy over the next two years.

**Brazil: Bovespa**



The IPCA-15 consumer price index rose to 4.84% in the year to mid-November, slightly above the 4.82% recorded at the end of the previous month. This figure surpasses the 4.5% ceiling set by the central bank for 2024. However, in response to moderating inflation expectations, the central bank initiated an interest rate easing cycle in August. It departed from nearly a year of keeping its benchmark interest rate stable. Policymakers have already reduced rates by 150 basis points to 12.25%, signalling further cuts of 50 basis points in each of the next two meetings as inflation outlooks remain favourable. We maintain our 4.8% and 3.6% forecast for inflation in 2023 and 2024, respectively.

While Brazil recorded a current account deficit of \$1.38 billion in September, a notable improvement from the previous year, foreign direct investment (FDI) fell short of expectations at \$3.75 billion during the same period. The real is currently holding around 4.9 against the USD, and we anticipate it will remain steady at this level. Currency fluctuations have been a persistent challenge for investment in Brazil, with the real losing more than twice its value against the dollar in the past decade. However, Brazil’s private capital industry is maturing and attracting interest from U.S. asset managers, with portfolio investors registering a net inflow of \$1.84 billion into Brazilian markets in September, including net inflows of \$2.31 billion into bonds.

While many major economies focus on clean energy, Brazil continues to invest heavily in oil production, exploring deep water reserves off the coast of Rio de Janeiro and eyeing potential deposits near the mouth of the Amazon River. Notwithstanding its business of oil exploration, the state-owned oil giant Petrobras is directing some of its profits toward renewable energy. Brazil is poised to be among the top three sources of global oil producers in the current year, alongside the U.S. and Iran, as per the International Energy Agency, partly due to output cuts by Saudi Arabia and Russia.

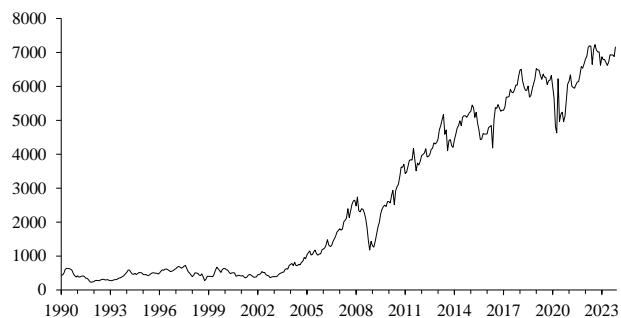
	22	23	24	25	26
GDP (%p.a.)	2.9	3.0	2.0	2.5	3.0
Inflation (%p.a.)	8.0	4.8	3.6	3.2	3.2
Current A/c(US\$ bill.)	-10.0	-12.0	-20.0	-10.0	-10.0
Real\$/\$(nom.)	5.2	4.9	4.8	4.8	4.8

## Other Emerging Markets

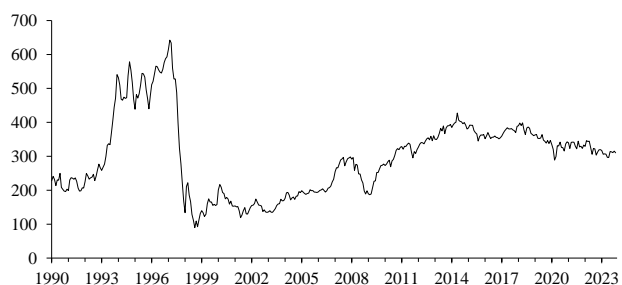
**Hong Kong: FT-Actuaries**



**Indonesia: Jakarta Composite**



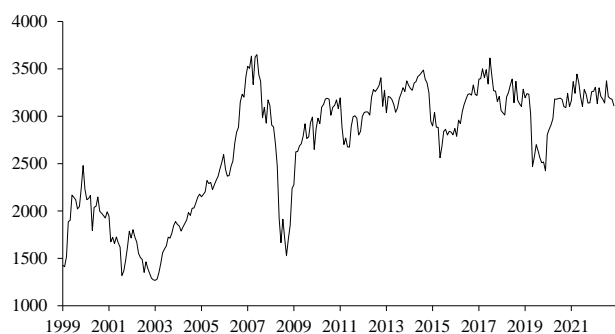
**Malaysia: FT-Actuaries  
(US\$ Index)**



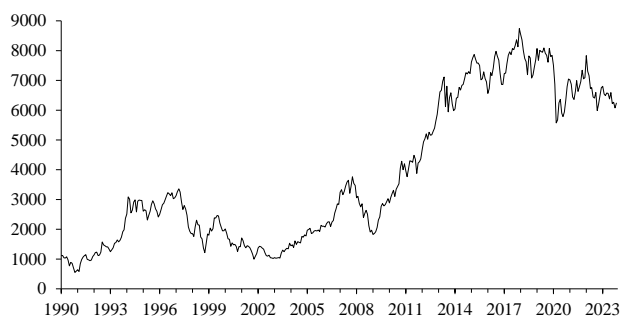
**Thailand: Composite Index**



**Singapore: Straits Times Index**



**Philippines: Manila Composite**



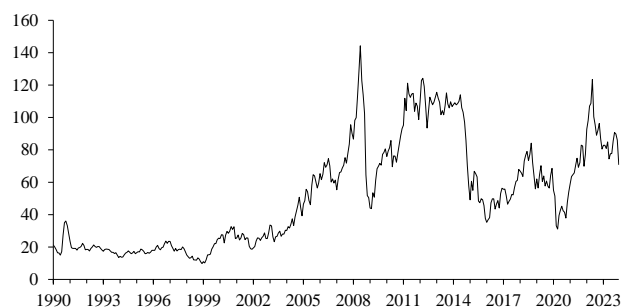
## COMMODITY MARKETS

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**Commodity Price Index (Dollar)**  
(Economist, 2015 = 100)



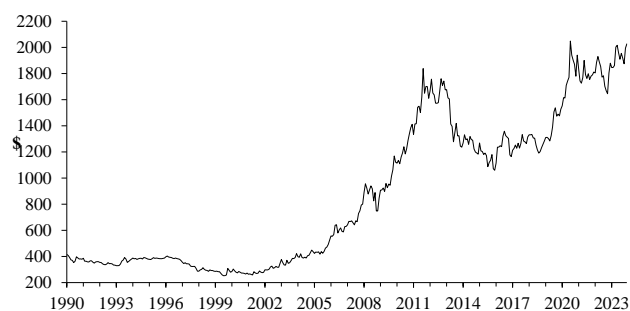
**Oil Price: North Sea Brent (in Dollars)**



**Commodity Price Index (Sterling)**  
(Economist, 2015 = 100)



**Gold Price (in Dollars)**



**Commodity Price Index (Euro)**  
(Economist, 2015 = 100)



## UK FORECAST DETAIL

### Prices, Wages, Interest Rates and Exchange Rate Forecast (Seasonally Adjusted)

	Inflation % <sup>1</sup> (CPI)	Short Dated (5 Year) Interest Rates	3 Month Int. Rates	Nominal Exchange Rate (2005=100) <sup>2</sup>	Real Exchange Rate <sup>3</sup>	Real 3 Month Int. Rates % <sup>4</sup>	Inflation (RPIX)	Real Short Dated Rate of Interest <sup>5</sup>
2020	0.9	0.1	0.2	78.2	72.9	-1.3	1.5	-1.4
2021	2.5	0.8	0.1	81.4	78.0	-6.4	4.1	-5.8
2022	9.1	2.5	2.0	79.1	82.4	-7.1	11.6	-6.7
2023	7.5	4.3	5.0	79.4	88.2	0.4	10.8	-0.3
2024	3.5	4.2	4.3	79.1	89.6	1.8	5.5	1.7
2025	2.0	3.0	3.0	79.0	89.9	1.0	2.8	1.0
2022:1	6.2	1.4	0.8	81.7	81.9	-9.4	8.4	-8.8
2022:2	9.2	2.1	1.4	79.2	81.8	-8.6	11.5	-7.9
2022:3	10.2	2.8	2.3	77.6	81.7	-6.7	12.4	-6.2
2022:4	10.9	3.6	3.6	77.9	84.1	-3.9	13.9	-3.9
2023:1	10.3	4.0	4.2	78.1	85.4	-1.8	13.6	-2.0
2023:2	8.5	4.1	5.2	80.2	89.4	0.4	11.2	-0.7
2023:3	6.1	4.5	5.2	80.3	89.1	1.2	10.1	0.5
2023:4	5.0	4.5	5.2	79.3	89.0	1.7	8.2	1.0
2024:1	4.5	4.3	5.0	79.0	89.5	2.1	7.3	1.4
2024:2	3.5	4.2	4.0	79.2	90.0	1.5	5.4	1.7
2024:3	3.0	4.1	4.0	79.2	89.1	1.8	4.6	1.9
2024:4	3.0	4.0	4.0	78.9	89.9	2.0	4.6	2.0

<sup>1</sup> Consumer's Expenditure Deflator<sup>2</sup> Sterling Effective Exchange Rate Bank of England<sup>3</sup> Ratio of UK to other OECD consumer prices adjusted for nominal exchange rate<sup>4</sup> Treasury Bill Rate less one year forecast of inflation<sup>5</sup> Short Dated 5 Year Interest Rate less average of predicted 5 year ahead inflation rate

### Labour Market and Supply Factors (Seasonally Adjusted)

	Average Earnings (1990=100) <sup>1</sup>	Wage Growth <sup>2</sup>	Survey Unemployment Percent	Millions	Real Wage Rate <sup>3</sup> (1990=100)
2020	279.1	1.6	4.5	1.3	149.7
2021	295.6	5.9	4.5	1.3	154.5
2022	313.3	6.0	3.7	1.0	151.0
2023	332.5	6.1	3.8	1.1	149.6
2024	344.7	3.7	2.9	0.7	150.0
2025	351.7	2.0	2.8	0.7	158.1
2022:1	308.8	5.7	3.7	1.0	154.6
2022:2	307.5	6.0	3.8	1.1	148.7
2022:3	316.3	5.9	3.6	1.0	149.0
2022:4	320.4	6.3	3.7	1.0	147.3
2023:1	327.0	5.9	3.8	1.0	147.8
2023:2	330.7	7.5	4.2	1.2	147.3
2023:3	334.3	5.7	3.8	1.1	148.4
2023:4	337.9	5.5	3.5	0.9	147.9
2024:1	342.5	4.7	3.0	0.8	148.2
2024:2	343.3	3.8	3.0	0.7	147.8
2024:3	345.0	3.2	2.8	0.7	148.7
2024:4	348.0	3.0	2.8	0.7	147.9

<sup>1</sup> Whole Economy<sup>2</sup> Average Earnings<sup>3</sup> Wage rate deflated by CPI

**Estimates and Projections of the Gross Domestic Product<sup>1</sup> (£ Million 1990 Prices)**

	<b>Expenditure Index</b>	<b>£ Million '90 prices</b>	<b>Non-Durable Consumption<sup>2</sup></b>	<b>Private Sector Gross Investment Expenditure<sup>3</sup></b>	<b>Public Authority Expenditure<sup>4</sup></b>	<b>Net Exports<sup>5</sup></b>	<b>AFC</b>
2020	150.6	721243.1	427576.4	250934.6	199232.3	-33095.4	123404.8
2021	163.7	783781.6	453975.6	276335.2	224535.7	-36903.3	134161.6
2022	170.6	816950.6	473683.3	277328.7	228365.7	-23824.9	138602.2
2023	171.3	820238.8	475727.6	275870.9	225318.2	-18636.0	138041.9
2024	174.6	836028.5	489782.5	270125.3	232155.7	-15892.2	140142.8
2025	178.0	852456.7	505723.0	269227.9	239198.4	-18462.8	143229.8
2020/19	-10.4		-10.1	-18.8	-4.8		4.1%
2021/20	8.7		7.3	11.9	13.4		8.7%
2022/21	4.2		4.7	1.1	1.9		3.3%
2023/22	0.4		0.4	-0.6	-1.3		-0.4%
2024/23	1.9		3.0	-2.1	3.0		1.5%
2025/24	2.0		3.3	-0.4	3.0		2.2%
2022:1	170.9	204558.1	118589.6	73715.5	56345.4	-9205.0	34887.4
2022:2	170.8	204429.6	118224.7	66135.7	57461.4	-2851.4	34540.8
2022:3	170.3	203859.4	118034.1	69576.5	56974.6	-6094.7	34631.1
2022:4	170.5	204103.5	118834.9	67900.9	57584.2	-5673.8	34542.7
2023:1	170.9	204663.7	118824.7	75780.7	55700.4	-11224.9	34417.2
2023:2	171.3	205143.0	118812.9	67471.5	56116.4	-2756.3	34501.5
2023:3	171.4	205180.1	118801.0	66568.6	56538.7	-2249.1	34479.1
2023:4	171.4	205252.1	119289.0	66050.1	56962.7	-2405.7	34644.0
2024:1	173.5	207731.3	120214.6	74503.9	57390.1	-9648.0	34729.3
2024:2	174.3	208671.2	122256.6	66012.3	57820.4	-2454.9	34963.2
2024:3	175.2	209768.4	123117.0	65434.6	58254.1	-1824.1	35213.2
2024:4	175.3	209857.6	124194.4	64174.6	58691.1	-1965.2	35237.3

<sup>1</sup> GDP at factor cost. Expenditure measure; seasonally adjusted

<sup>2</sup> Consumers expenditure less expenditure on durables and housing

<sup>3</sup> Private gross domestic capital formation plus household expenditure on durables and clothing plus private sector stock building

<sup>4</sup> General government current and capital expenditure including stock building

<sup>5</sup> Exports of goods and services less imports of goods and services

**Financial Forecast**

	<b>PSBR/GDP %<sup>1</sup></b>	<b>GDP<sup>1</sup> (£bn)</b>	<b>PSBR (£bn) Financial Year</b>	<b>Current Account (£ bn)</b>
2020	15.5	2090.9	312.9	-67.5
2021	5.0	2464.4	121.1	-34.3
2022	4.7	2767.3	130.5	-93.9
2023	3.3	2960.9	95.6	-25.4
2024	1.2	3108.5	38.3	-14.7
2025	0.7	3235.8	23.5	1.5
2022:1	0.0	646.4	-0.2	-50.5
2022:2	6.3	668.4	42.1	-28.2
2022:3	3.6	682.4	24.9	-12.7
2022:4	6.0	701.1	42.3	-2.5
2023:1	3.0	715.4	21.2	-10.8
2023:2	7.2	729.2	52.3	-9.8
2023:3	2.4	730.0	17.3	-3.3
2023:4	2.1	741.9	15.5	-1.5
2024:1	1.4	759.8	10.5	-7.3
2024:2	1.3	768.3	9.9	-8.6
2024:3	1.2	769.1	9.6	0.1
2024:4	1.3	781.8	9.9	1.1

<sup>1</sup> GDP at market prices (Financial Year)

## WORLD FORECAST DETAIL

### Growth Of Real GNP

	2019	2020	2021	2022	2023	2024
U.S.A.	2.2	-2.8	5.9	2.1	0.7	1.2
U.K.	1.6	-10.4	8.7	4.2	0.4	1.9
Japan	-0.4	-4.3	2.2	1.0	1.1	1.1
Germany	1.1	-3.7	2.6	1.9	-0.3	1.4
France	1.9	-7.9	6.8	2.5	0.3	0.6
Italy	0.5	-9.1	6.6	3.3	-0.1	0.3

### Growth Of Consumer Prices

	2019	2020	2021	2022	2023	2024
U.S.A.	1.8	1.3	4.7	8.0	3.9	2.5
U.K.	1.7	0.9	2.5	9.1	7.5	3.5
Japan	0.5	0.0	-0.2	2.5	2.1	1.2
Germany	1.4	0.5	3.1	7.9	6.2	2.7
France	1.1	0.4	1.7	5.4	4.0	2.0
Italy	0.6	-0.1	1.9	7.6	5.0	2.4

### Real Short-Term Interest Rates

	2019	2020	2021	2022	2023	2024
U.S.A.	0.2	-4.6	-7.1	-1.7	2.4	2.0
U.K.	-0.1	-2.3	-9.0	-5.5	2.5	2.3
Japan	0.1	0.3	-2.4	-2.1	-1.1	-1.4
Germany	-0.9	-3.6	-8.5	-5.9	0.4	0.5
France	-0.8	-2.2	-6.0	-3.7	1.1	0.8
Italy	-0.3	-2.4	-8.2	-4.7	0.7	0.7

### Nominal Short-Term Interest Rates

	2019	2020	2021	2022	2023	2024
U.S.A.	1.5	0.1	0.1	2.2	4.9	4.0
U.K.	0.8	0.2	0.1	2.0	5.0	4.3
Japan	0.1	0.1	0.1	0.0	0.1	0.1
Germany	-0.4	-0.5	-0.6	0.3	3.1	2.8
France	-0.4	-0.5	-0.6	0.3	3.1	2.8
Italy	-0.4	-0.5	-0.6	0.3	3.1	2.8

### Real Long-Term Interest Rates

	2019	2020	2021	2022	2023	2024
U.S.A.	-2.2	-3.3	-2.1	1.3	1.5	1.2
U.K.	-4.1	-4.8	-4.0	-0.9	2.0	2.2
Japan	-1.1	-1.3	-1.7	-1.5	-1.1	-1.3
Germany	-4.3	-5.0	-4.4	-0.9	0.1	0.0
France	-2.6	-3.3	-2.9	-0.6	0.9	0.7
Italy	-2.0	-3.3	-2.6	0.3	2.3	2.2

### Nominal Long-Term Interest Rates

	2019	2020	2021	2022	2023	2024
U.S.A.	1.9	0.9	1.6	3.8	3.6	3.2
U.K.	0.6	0.1	0.8	2.5	4.3	4.2
Japan	0.0	0.0	0.1	0.2	0.5	0.5
Germany	-0.2	-0.6	-0.2	2.1	2.3	2.1
France	0.1	-0.3	0.2	1.8	2.9	2.7
Italy	1.4	0.5	1.2	3.0	4.4	4.2

### Index Of Real Exchange Rate (2010=100)<sup>1</sup>

	2019	2020	2021	2022	2023	2024
U.S.A.	117.1	118.7	116.1	128.3	128.0	128.5
U.K.	99.5	99.6	103.7	100.7	101.1	100.7
Japan	77.0	77.8	71.0	59.9	59.2	59.3
Germany	96.0	97.1	97.9	95.0	95.1	95.4
France	93.9	94.7	94.0	89.6	89.5	89.0
Italy	95.0	95.4	95.1	91.6	91.3	89.9

<sup>1</sup> The real exchange rate is the domestic price level relative to the foreign price level converted into domestic currency. A rise in the index implies an appreciation in the real exchange rate.

### Nominal Exchange Rate

(Number of Units of Local Currency To \$1)

	2019	2020	2021	2022	2023	2024
U.S.A. <sup>1</sup>	122.52	124.77	119.77	127.34	126.90	127.40
U.K.	1.28	1.28	1.38	1.24	1.24	1.24
Japan	109.10	106.60	110.45	133.10	136.20	137.80
Eurozone	0.89	0.87	0.85	0.95	0.98	0.99

<sup>1</sup> The series for the USA is a nominal broad U.S dollar index (2010=100); the series for the UK is \$ per £

\* Forecasts based on the Liverpool World Model