Waterways Symposium

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Tom Scott, Global Director, Agribusiness Consulting

Future macroeconomic trends and risks

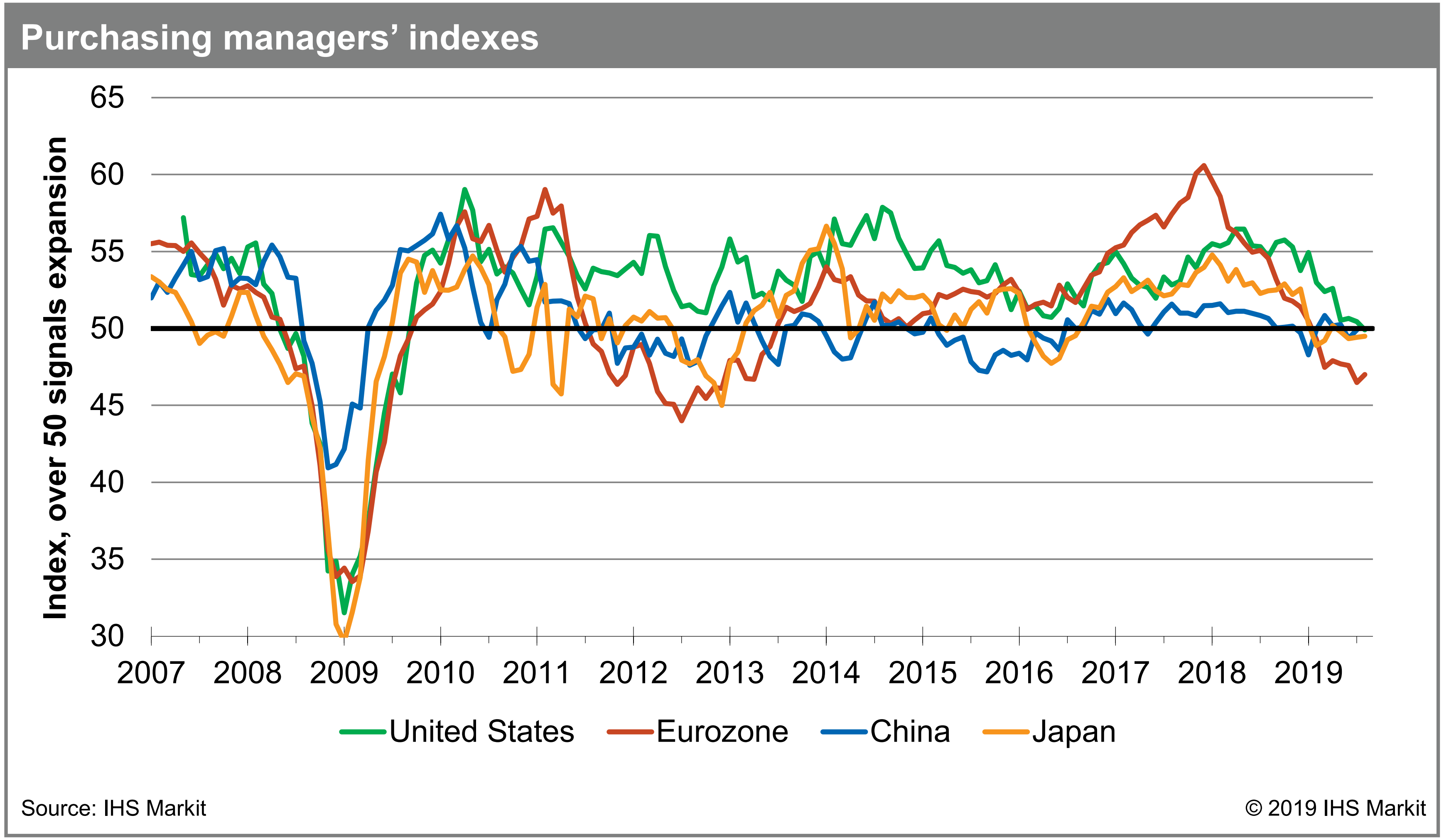
- With soft global demand growth, commodity prices are restrained, and so is overall inflation.
- Near-term monetary policies will remain accommodative, but the already low interest rates and sizable fiscal deficits in many countries leave little scope for policy stimulus in the next recession.
- The US dollar should appreciate moderately in the near term, based on favorable rates of return and risk aversion.
- Vulnerability to shocks rises as economic growth diminishes.
- Downside risks include escalating US-China tensions, new trade conflicts, war in the Middle East, a hard Brexit, and rising debt levels.

Global protests, often locally driven, add to uncertainty. Among others….

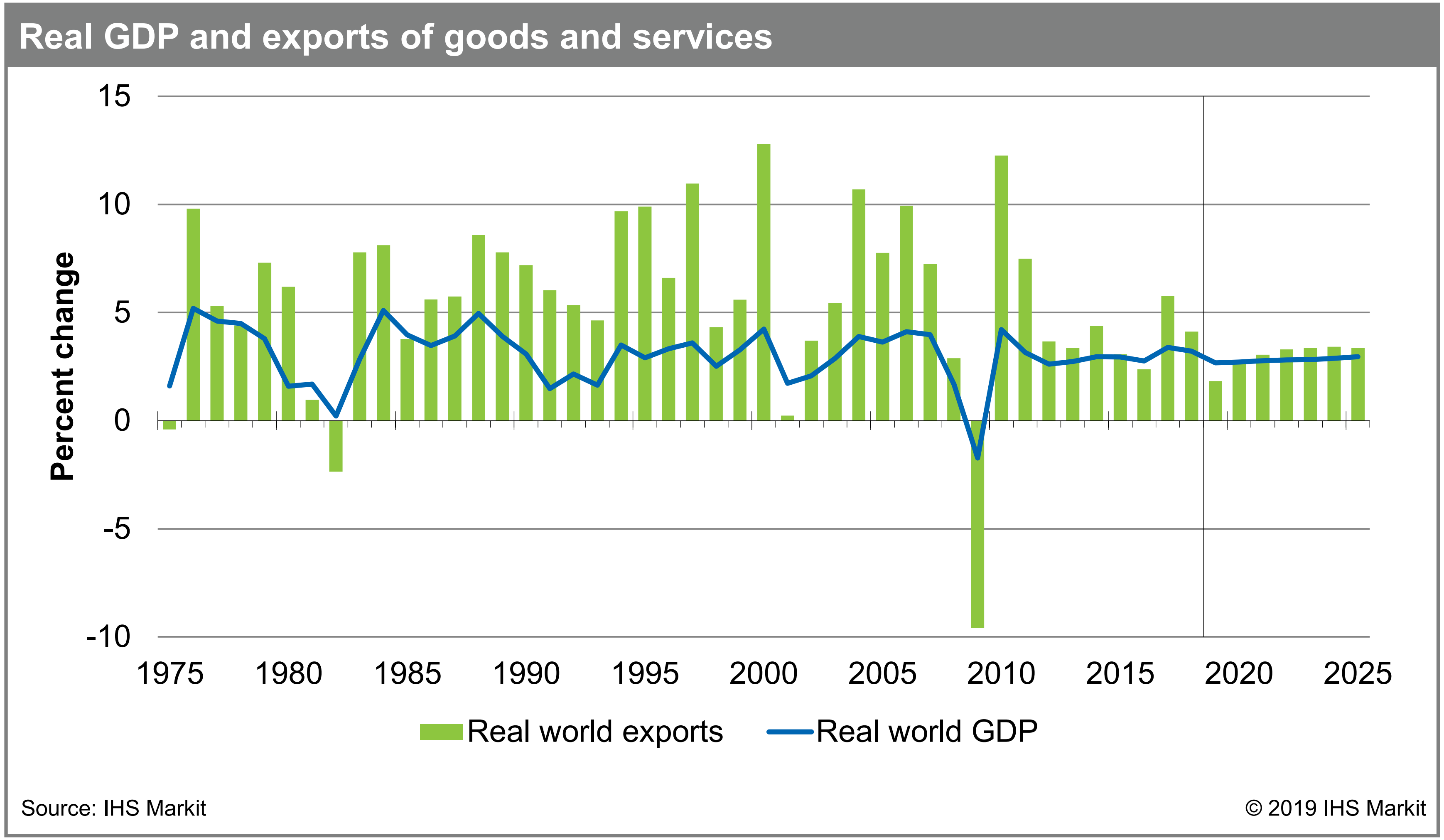
- Hong Kong: extradition
- Russia: one party rule
- Lebanon: WhatsApp tax
- Chile: increased metro fare
- UK: Brexit
- France: fuel/carbon tax
- Span/Catalonia: jailing of referendum leaders
- Iraq: demotion of a popular general
- Brazil: pension reform
- Argentina: return to Peronist rule
- Ecuador: austerity measures, canceled fuel subsidies

While all have very local drivers, are there common themes that are leading to the largest level of global protest since at least the late 80's/early 90's or even the 60's?

IHS Markit manufacturing PMIs® signal deteriorating business conditions in major economies



World trade has decelerated with rising protectionism



Both structural and cyclical forces are affecting world trade

Cyclical forces

- Maturing global expansion
- Deceleration in capital spending
- Weak commodity prices

Structural forces

- Trade protectionism
- Shift from manufacturing to services
- Shortening of global supply chains
- Technological advances

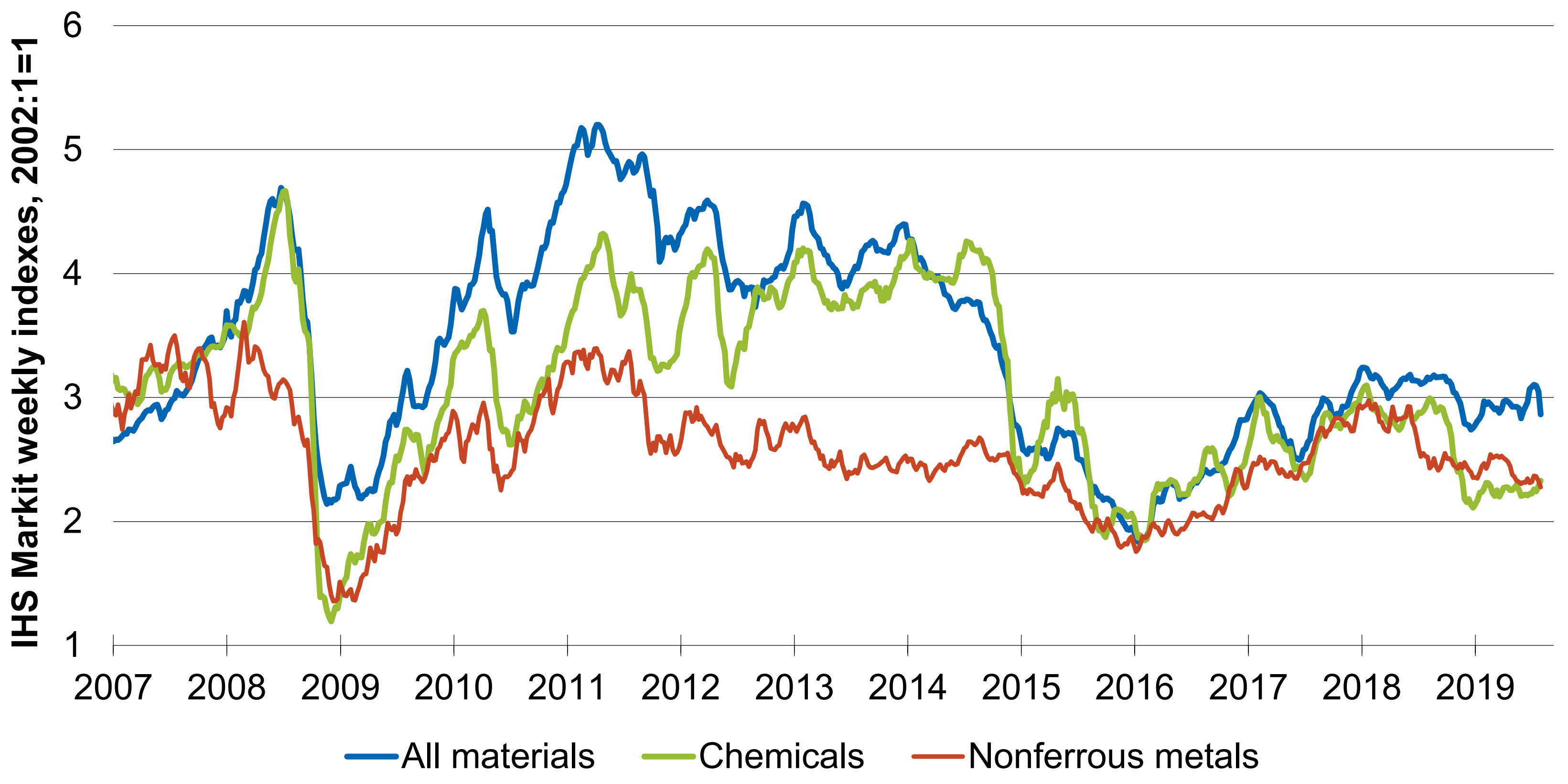
Real GDP growth in major economies is slowing nearly everywhere

Real GDP					
Percent change	**2017**	**2018**	**2019**	**2020**	**2021**
World	3.4	3.2	2.7	2.6	2.6
United States	2.4	2.9	2.3	2.1	1.9
Canada	3.0	1.9	1.4	1.3	1.6
Eurozone	2.7	1.9	1.1	0.8	1.0
United Kingdom	1.8	1.4	1.0	0.5	0.9
China	6.7	6.6	6.2	5.7	5.6
Japan	1.9	0.8	1.1	0.3	0.6
India*	7.1	6.8	6.1	6.4	6.9
Brazil	1.1	1.1	0.8	1.3	1.5
Russia	1.7	2.2	1.3	1.7	1.8

* Fiscal years starting 1 April
Source: IHS Markit

In this low growth environment, industrial materials prices remain constrained

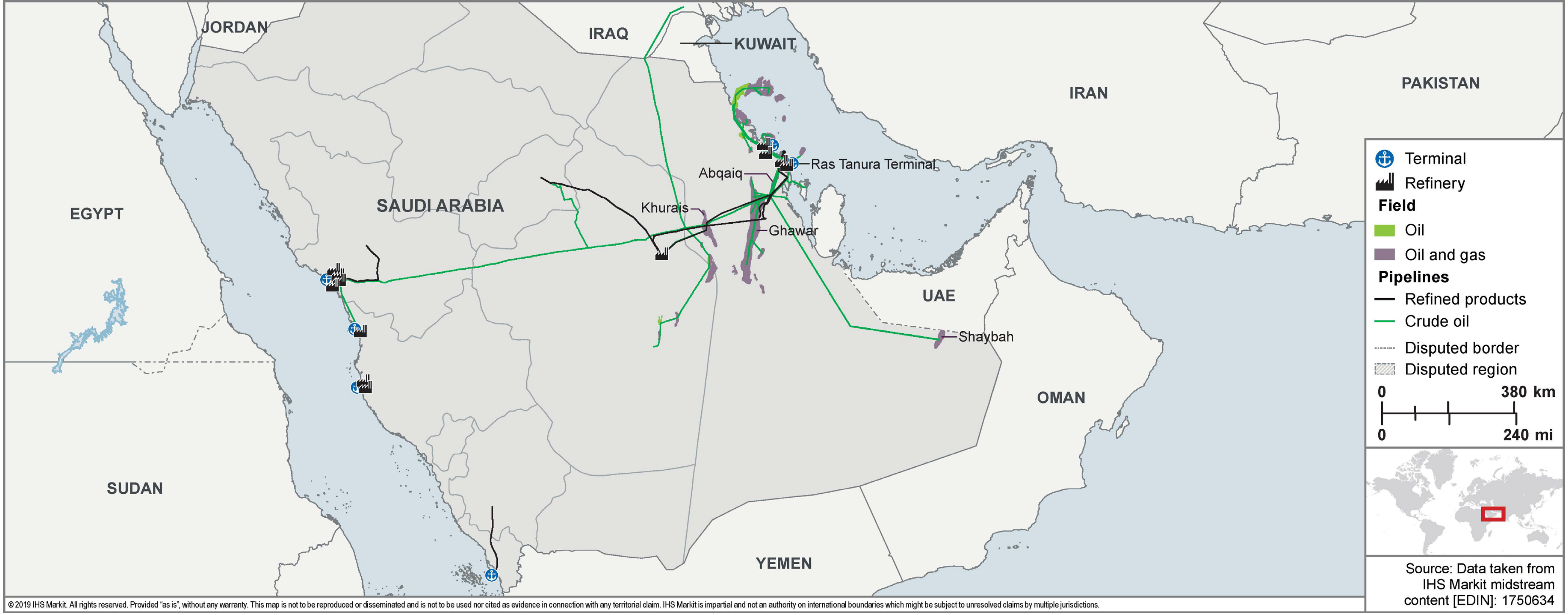
IHS Markit Materials Price Index



Source: IHS Markit

The targeted attacks on Saudi Arabian oil facilities knocked out ~5.7 MMb/d of crude oil output, equivalent of ~7% of global crude production

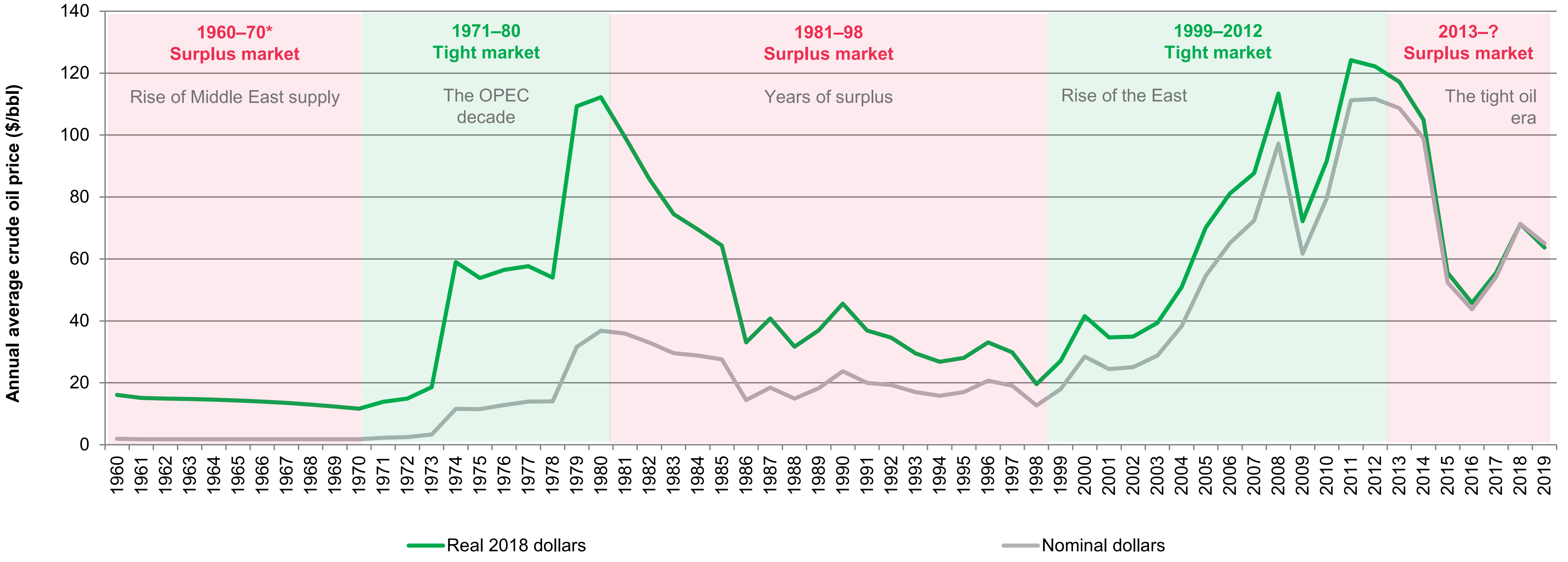
Saudi Arabian oil fields and infrastructure



Source: Data taken from IHS Markit midstream content [EDIN]: 1750634

The fact that these occurred during a cycle of oil supply surplus helps explain the market response, at least so far

Crude oil price cycles since 1960

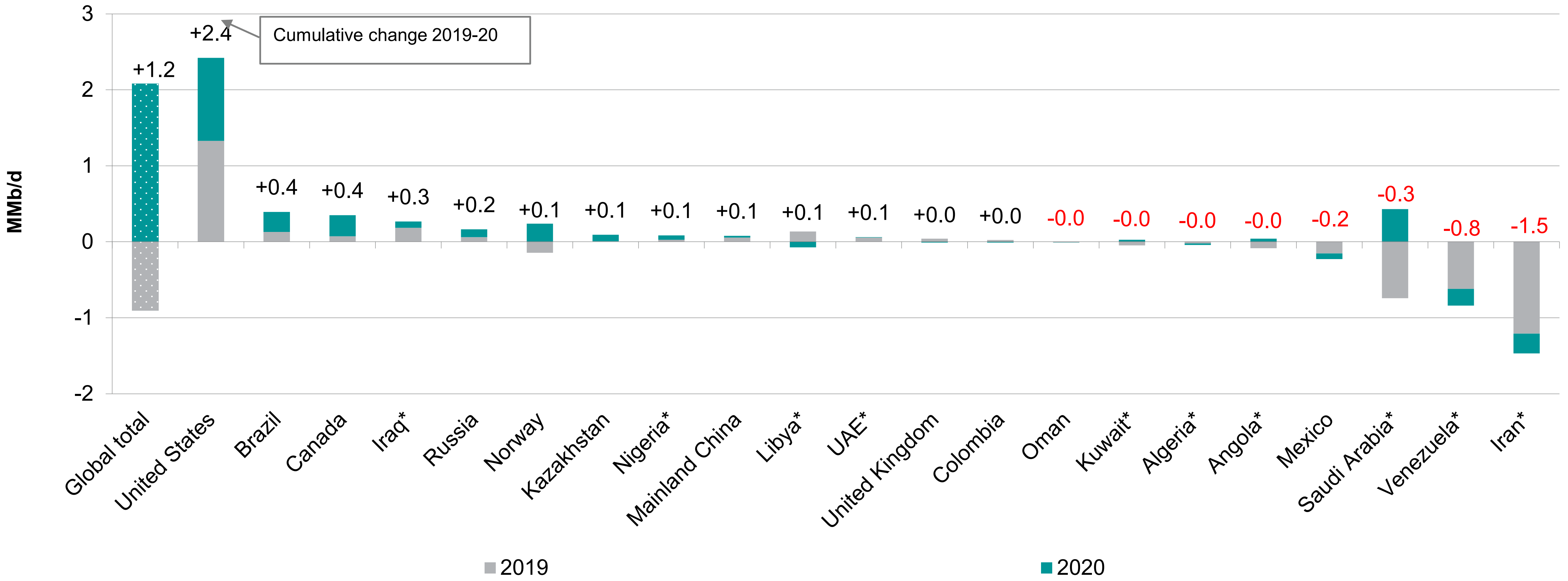


Note: 1960–83 prices are Arabian Light posted at Ras Tanura. 1984 onward prices are for Dated Brent. *Cycle started in 1959.
Source: BP Statistical Review of World Energy (data), IHS Markit (identification of cycles)

IHS Markit

In the baseline forecast, we assume growth in US output to compensate for Saudi Arabian production outages in 2019. Inventory draw in 2019 will make the difference

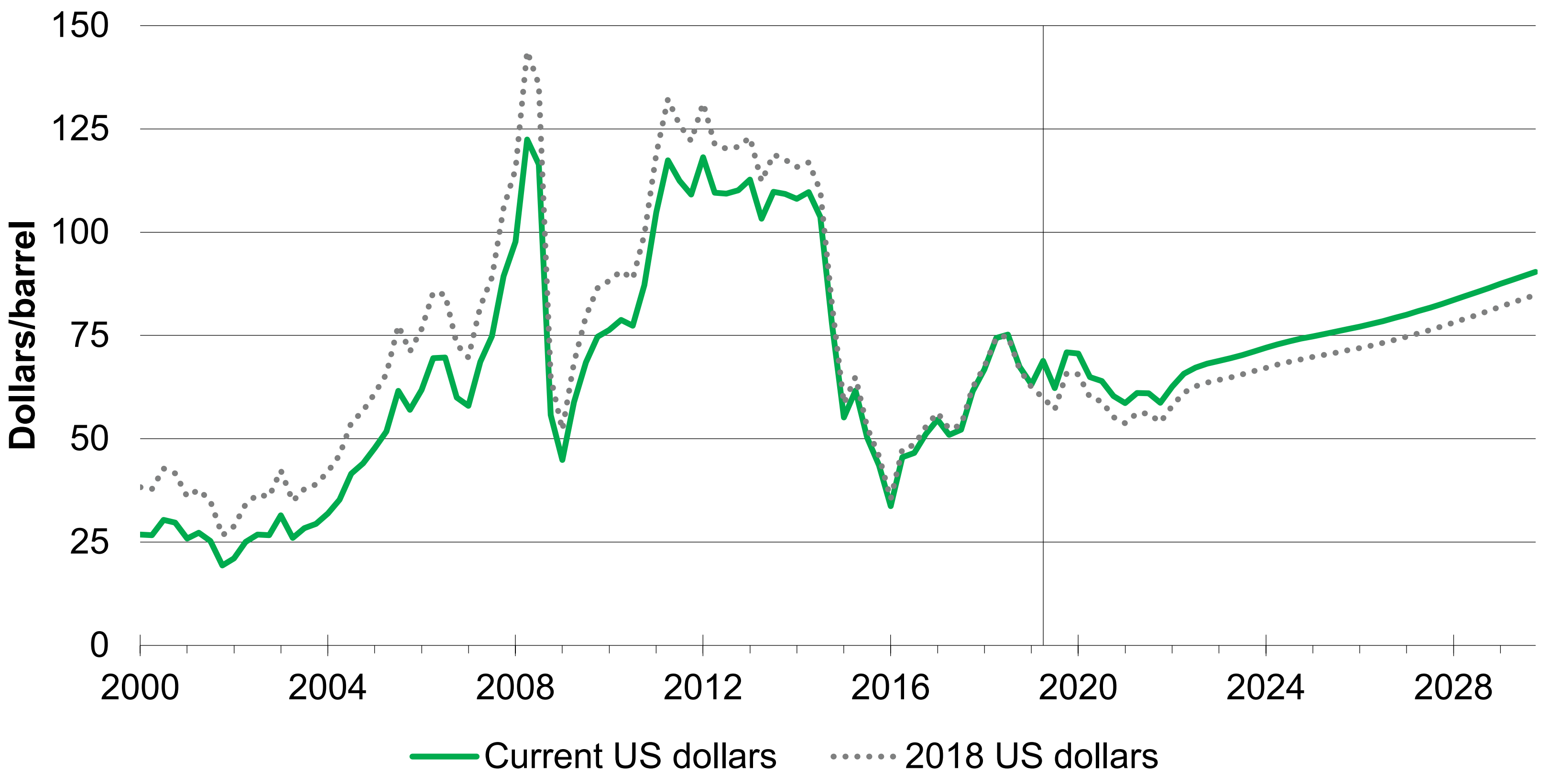
Year-on-year change in average annual crude oil output for selected large global producers



Notes: * Indicates OPEC member.
Source: IHS Markit

Dated Brent now expected to average 66.3 US$/bl in 2019, and 65 US$/bl in 2020

Price of Dated Brent crude oil



Source: IHS Markit

Outlook for selected countries/regions

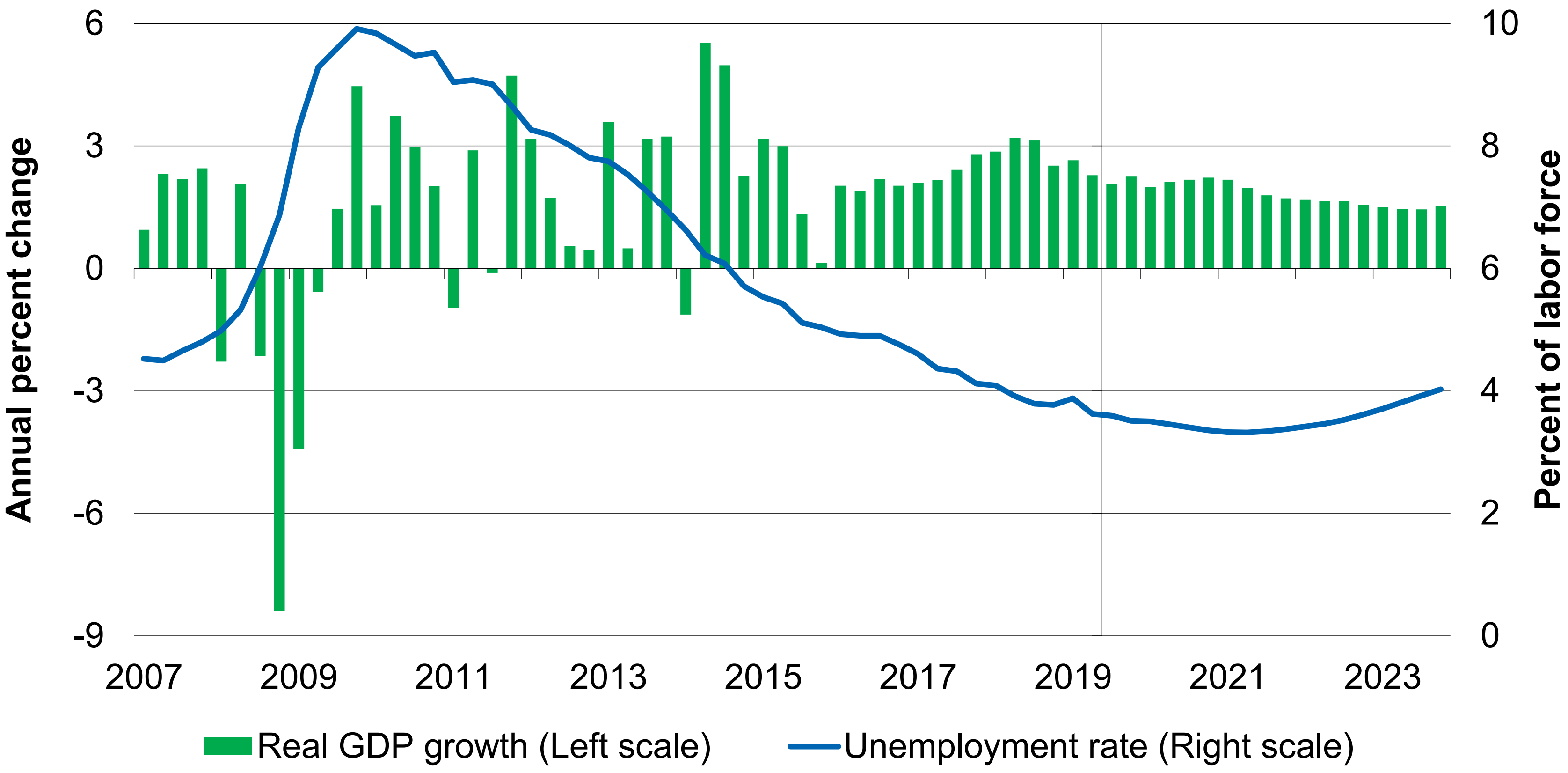
IHS Markit®

US economic growth will settle near a 2% trend

- Real GDP slowed from a 3.1% annual rate in the first quarter to 2.1% in the second quarter, as accelerations in consumer and government spending were overshadowed by declines in exports, construction, and inventory investment.
- Additional fiscal stimulus in the Bipartisan Budget Act of 2019 and improved financial conditions have led to upward revisions in the forecast of real GDP growth from mid-2019 through 2022.
- Consumer spending is supported by gains in employment, real wages, and household wealth. Supply-side constraints will restrain residential investment.
- Capital spending will decelerate with a maturing expansion. The grounding of Boeing’s 737 MAX is expected to reduce aircraft production, investment, and exports through December, followed by recovery in early 2020.
- Price inflation will remain in check near 2% thanks to slowing global growth, restrained commodity prices, a strong dollar, and steady inflation expectations.

The US real GDP growth will settle near a 2% trend, with the unemployment rate reaching a low of 3.3% in 2021

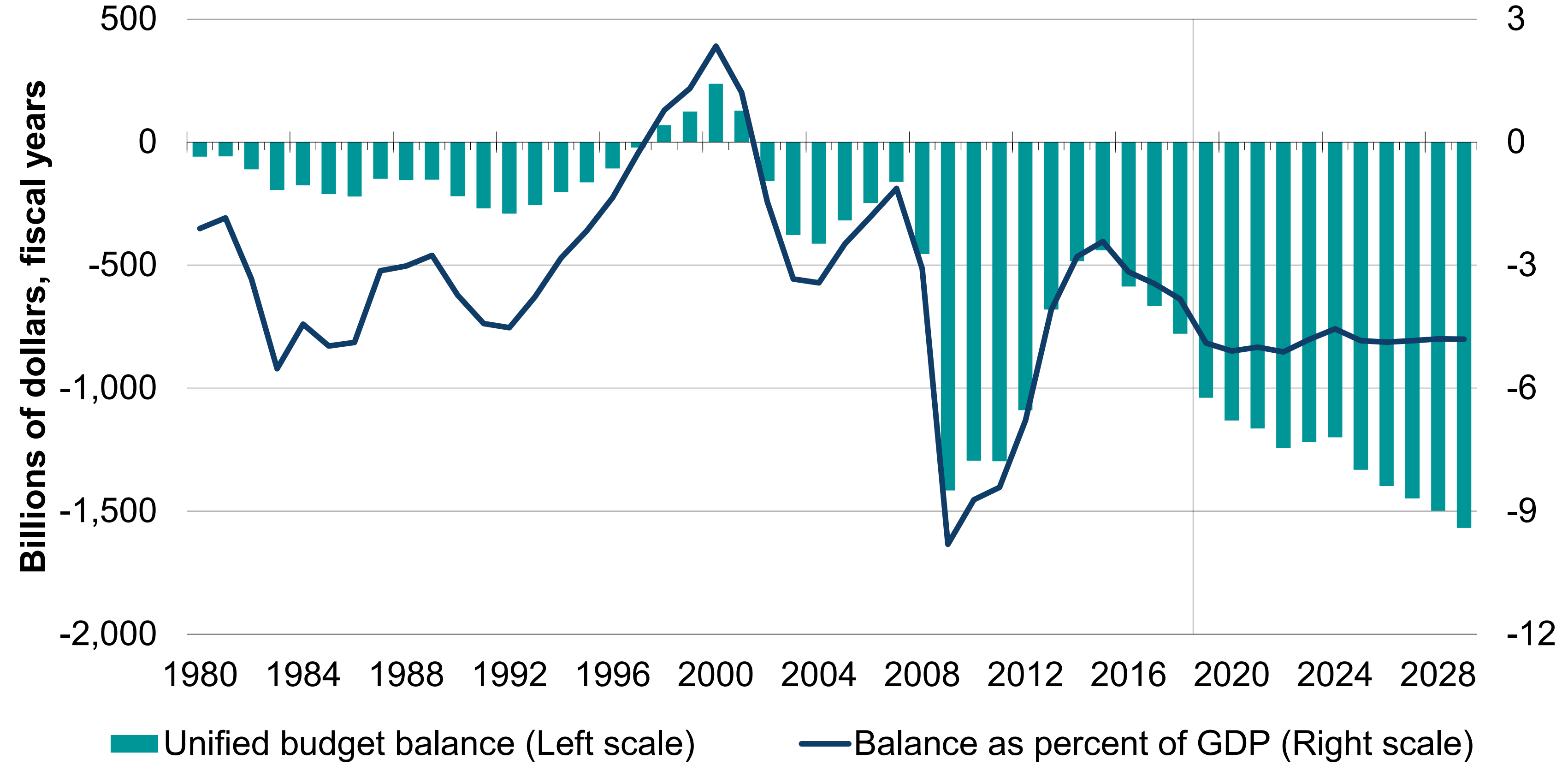
Real GDP and unemployment



Source: IHS Markit

The twin deficits continue to widen: with fiscal expansion, the US federal budget deficit continuously increases

US federal budget balance

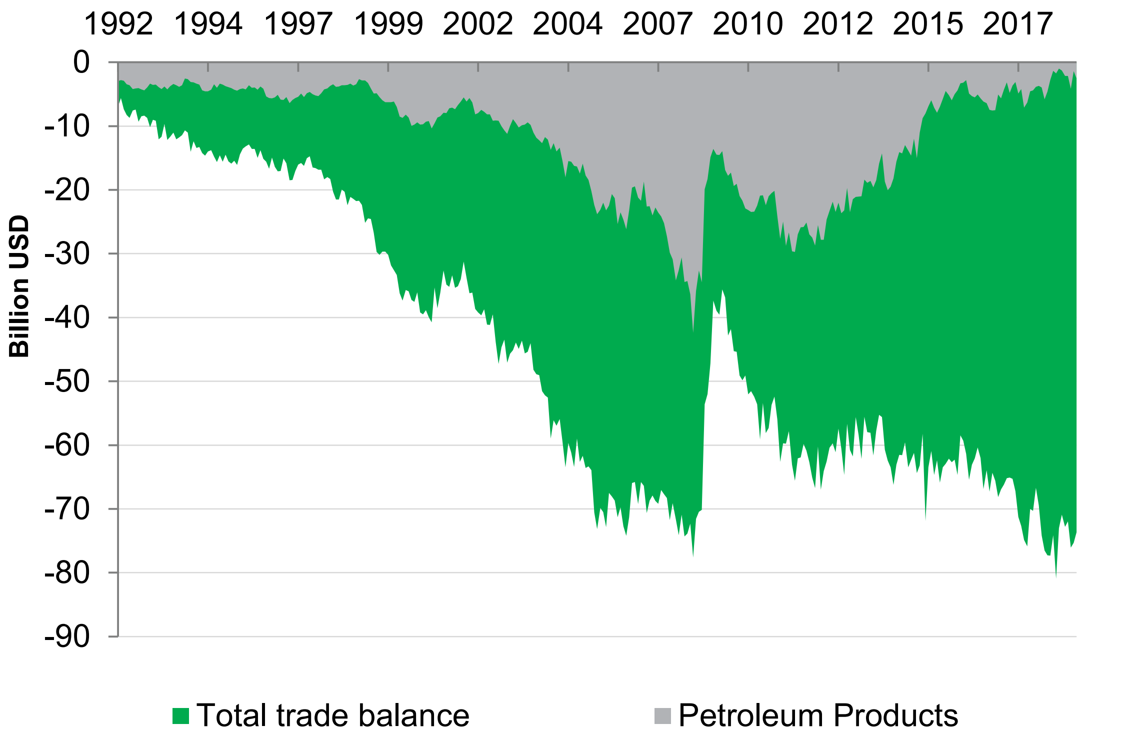


Source: IHS Markit

Despite the trade war, the US trade balance also continues to deteriorate

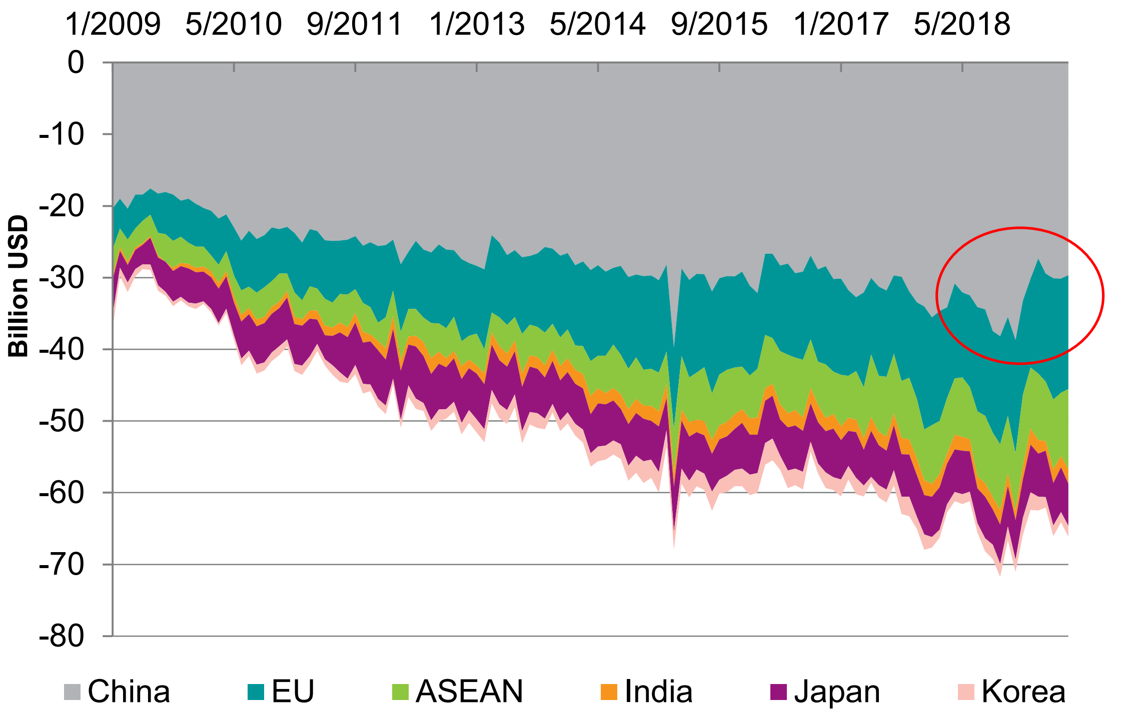
China is the largest contributor to the US trade deficit, followed by Europe & Asean

USA - Trade balance, seasonally adjusted



Source: US Census

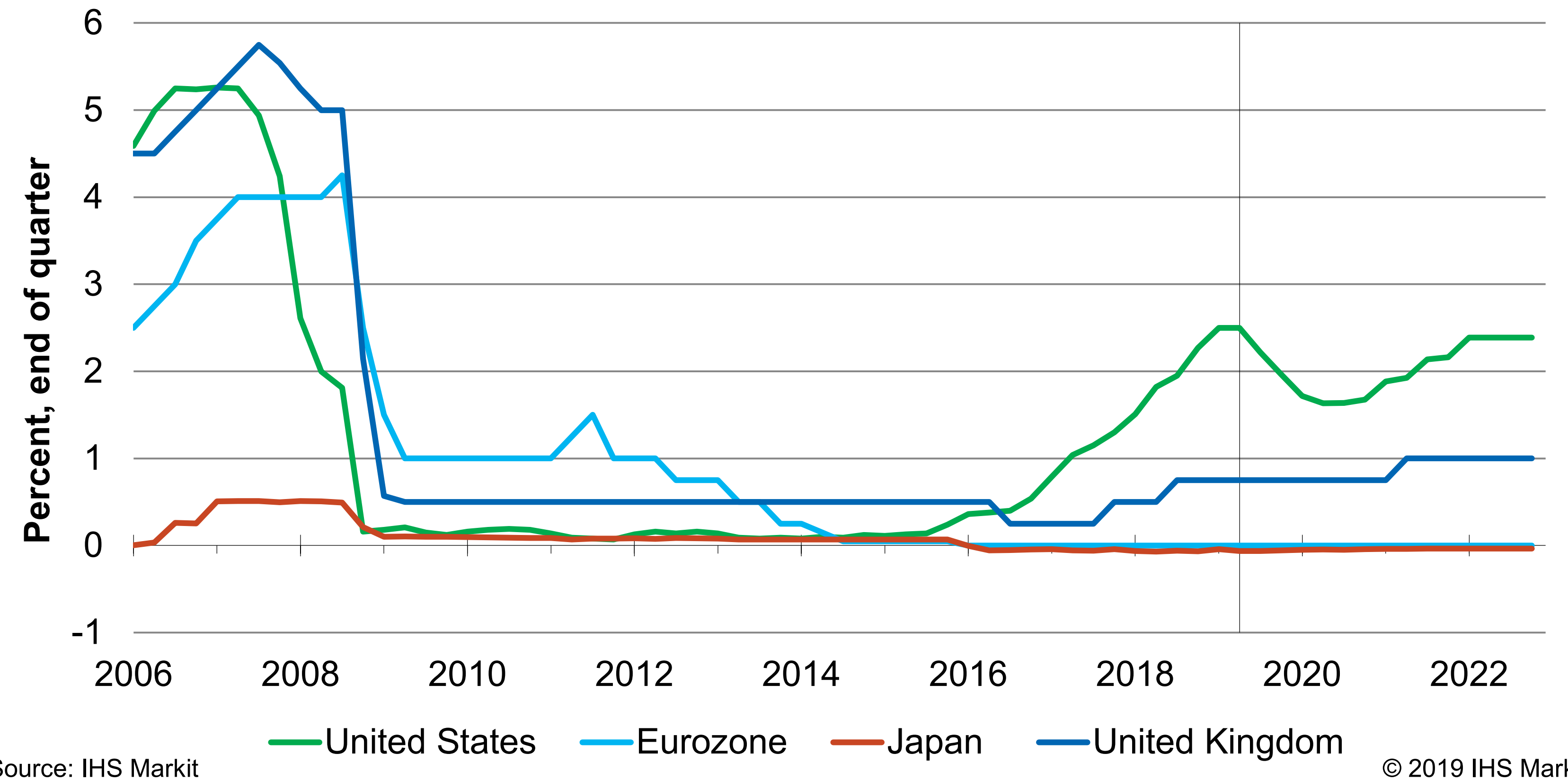
USA - Trade balance with selected trading partners *(monthly)*



Source: US Census

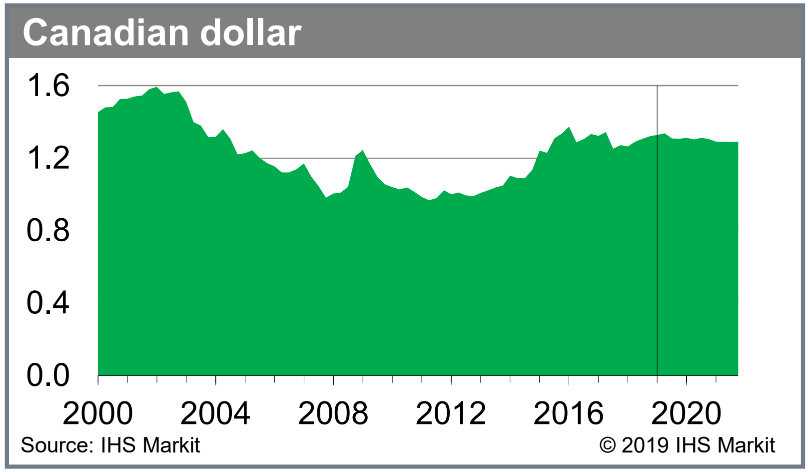
The Fed has taken precautionary moves, lowering interest rates in July, September and October.

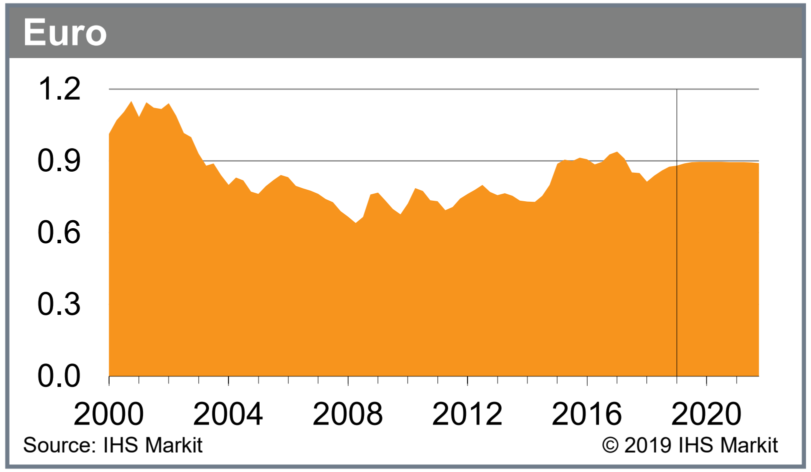
Policy interest rates

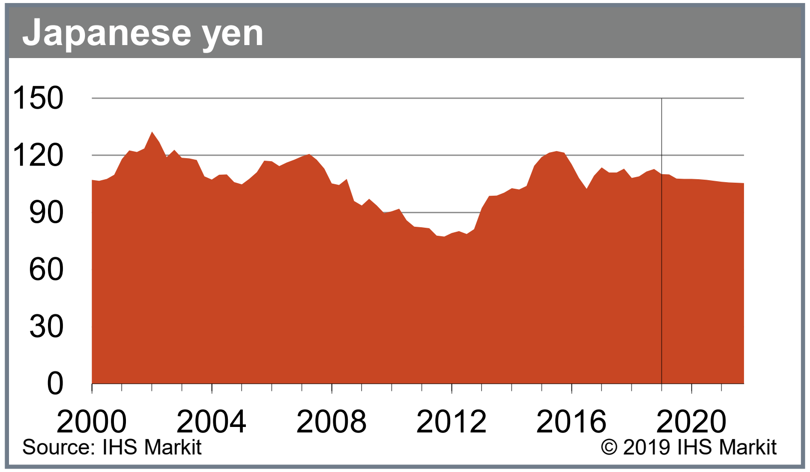


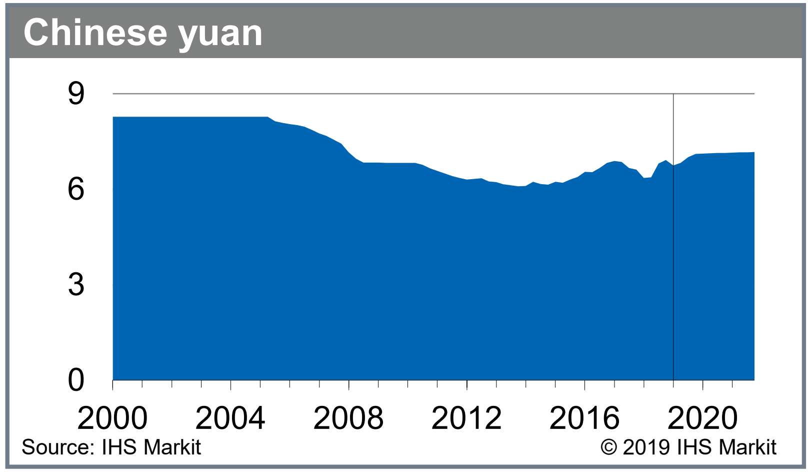
Source: IHS Markit

Despite the rate cut, the US dollar will appreciate slightly on a safe haven effect



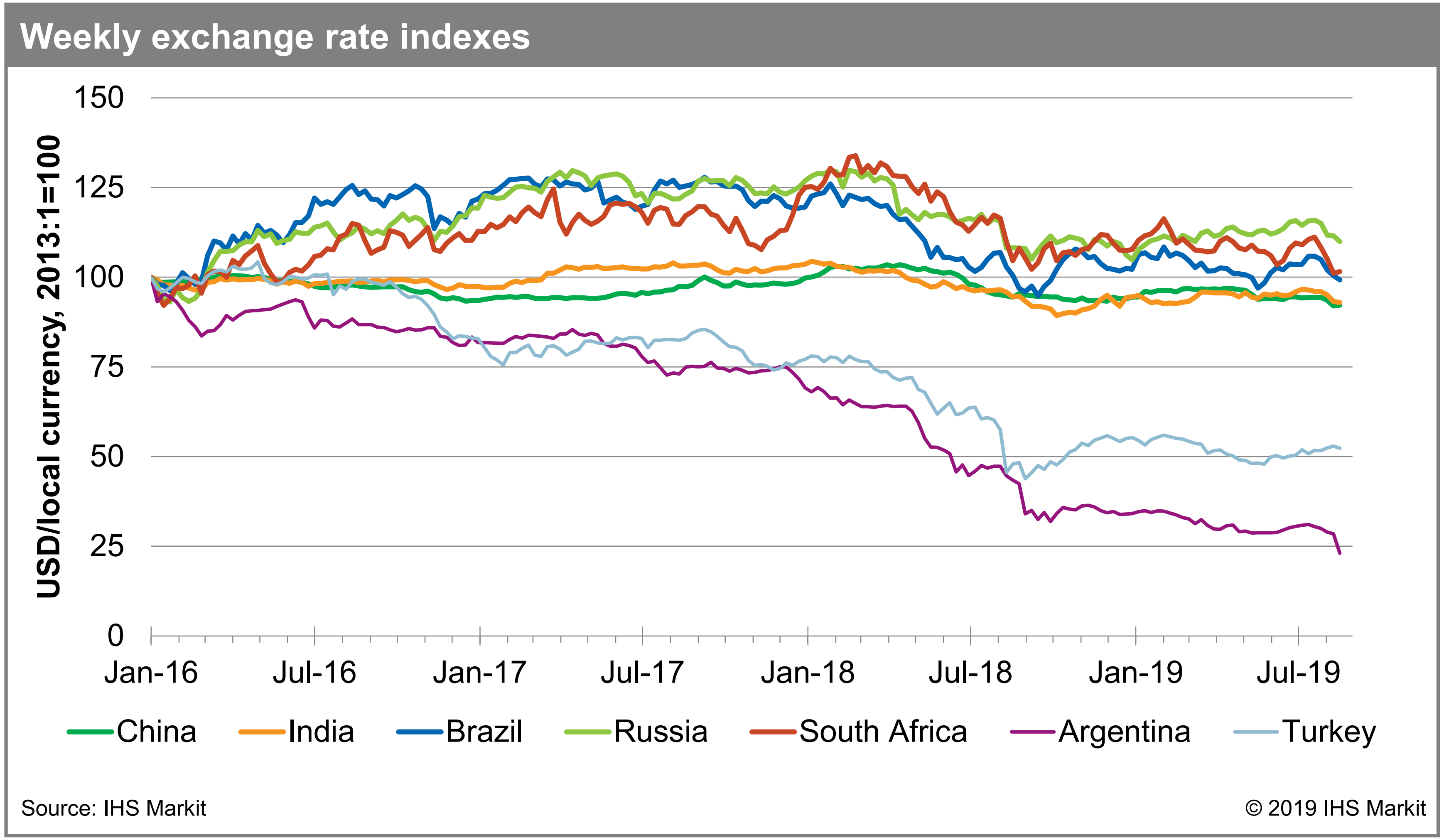






Quarterly averages

Emerging-market currencies remain vulnerable to capital flight

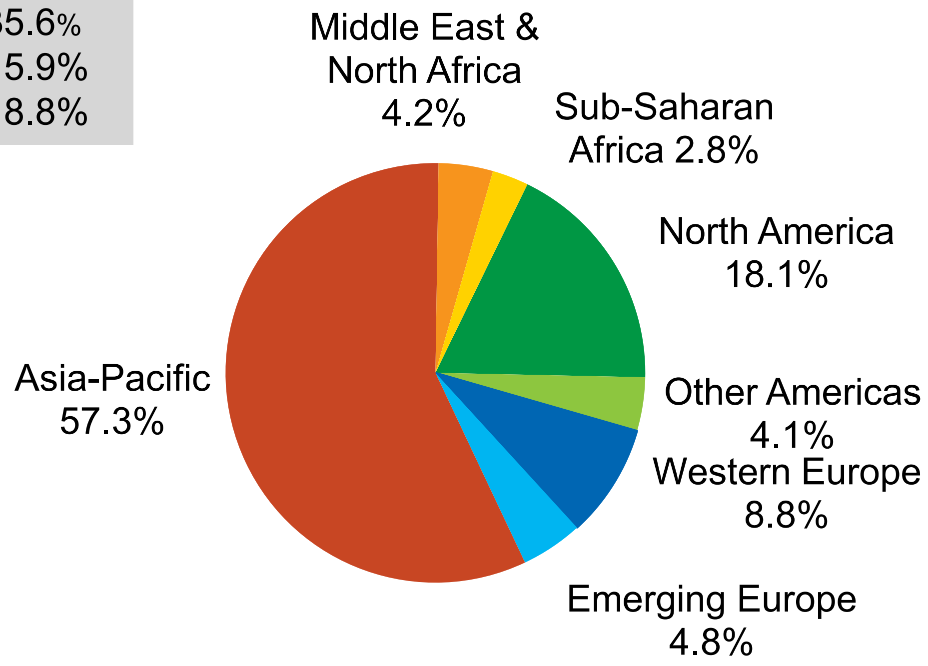


Asia-Pacific will account for 57% of global real GDP growth from 2018 to 2028

Percent of world real GDP growth, 2018–28

Notable contributions:

China	35.6%
United States	15.9%
India	8.8%

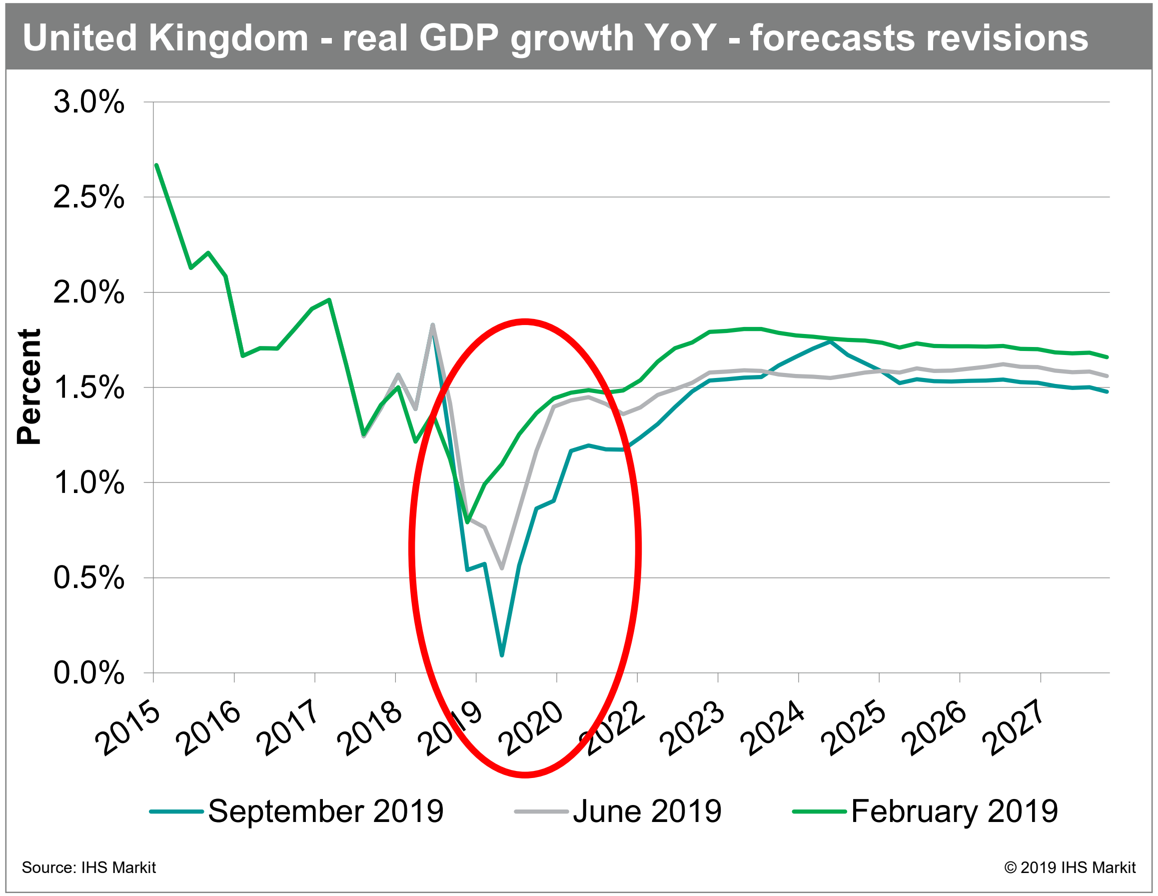


Source: IHS Markit

Eurozone growth continues to slow

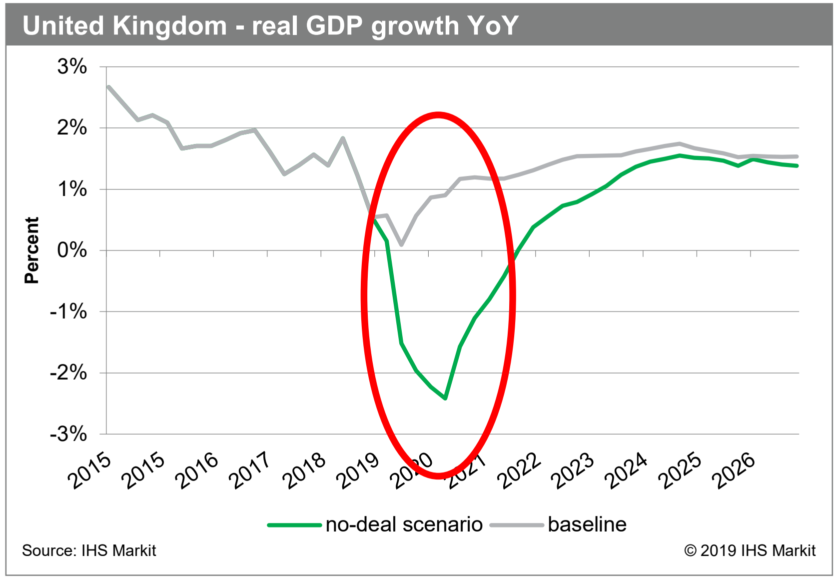
- Eurozone real GDP growth slowed to 0.2% q/q in the second quarter from 0.4% in the first quarter. The manufacturing sector continues to struggle in the face of weaker global trade and heightened political uncertainty.
- Among major eurozone countries, Germany is most vulnerable to external demand disruptions because of its export dependency; this is offset by resilience in domestic demand and leeway for fiscal stimulus due to budget surpluses.
- Developments in Italy are consistent with our forecast that political turmoil in late 2019 would add further distress to a misfiring economy. The prime minister’s resignation threatens to delay the budget and banking reforms. Elections are likely to be postponed until early 2020.
- In response to subdued economic growth and core inflation, the European Central Bank will increase net asset purchases, lower its deposit facility rate, and maintain accommodative policies for several years.
- Downside risks include trade protectionism, a hard Brexit, deteriorating private credit conditions, and an escalating conflict between Italy and the EU.

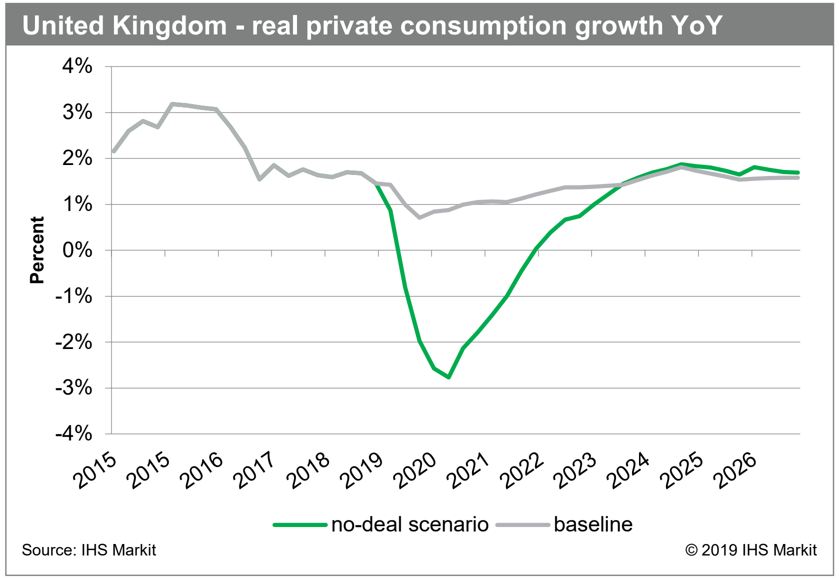
Brexit-related uncertainty will limit UK growth

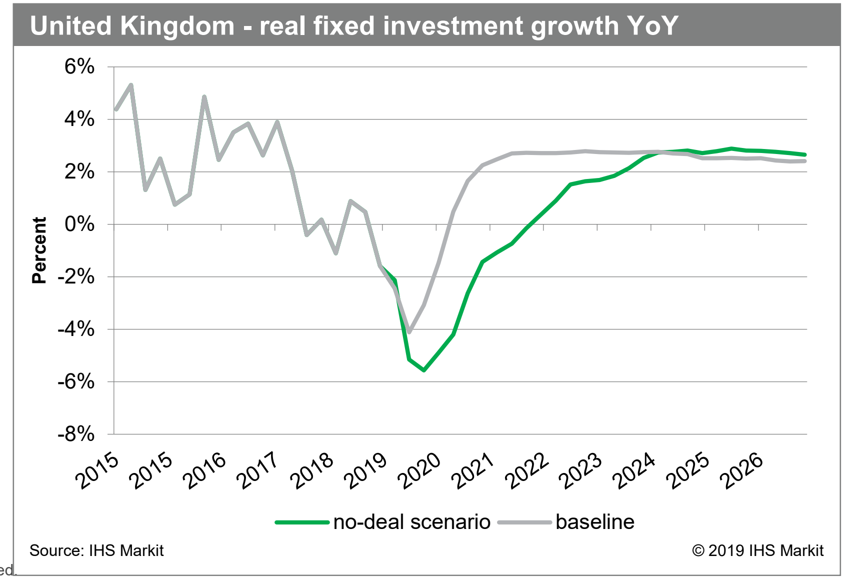


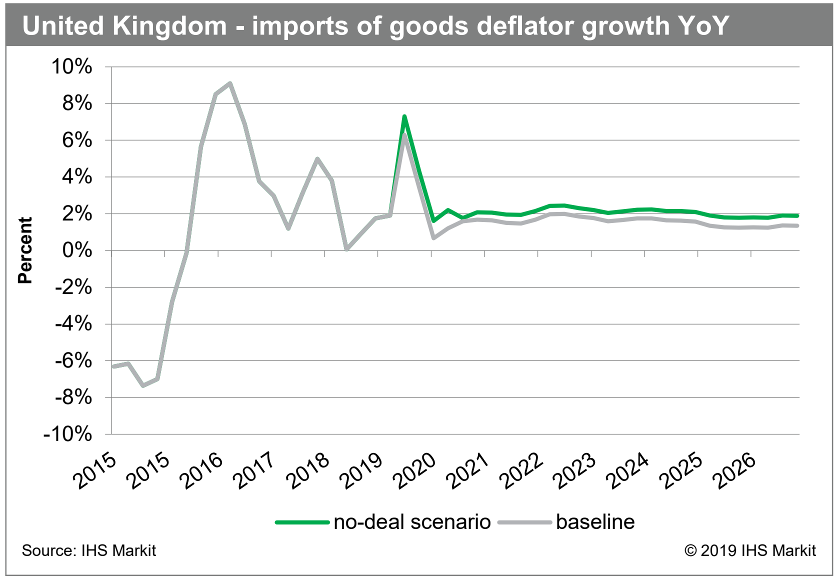
- IHS Markit's forecast for the UK has been revised downward over the course of 2019 as deadlines were being pushed and no compromise is in sight.
- A number of factors explain the downward revision in UK real GDP growth – not all were Brexit related.
- Yet, as uncertainty persists, investment suffers and so does £.

Under a no-deal by end-October, the UK would enter recession for 2 years



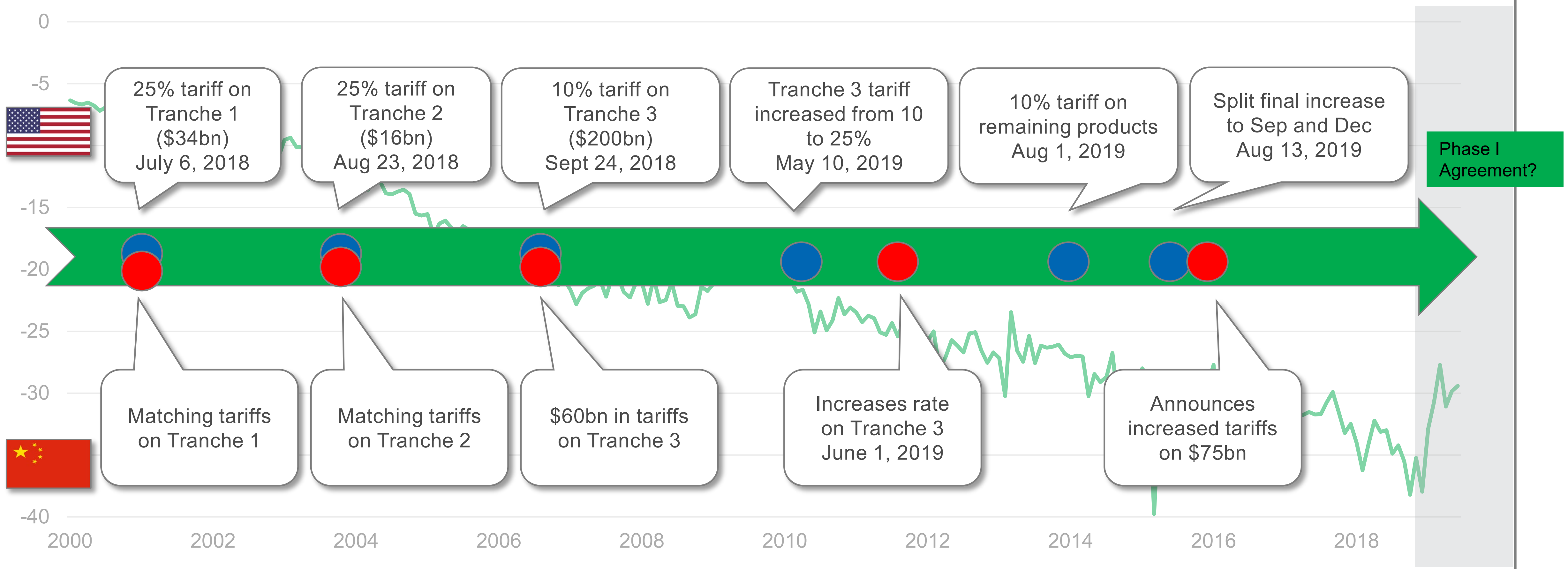






The trade war has known several "tit for tat" episodes - more could come

Timeline of Trade Dispute and U.S. Trade Balance with China ($bn)



Notes: Underlying data seasonally adjusted using the Census X13 method
Source: IHS Markit, U.S. Census; Peterson Institute on International Economics

The trade war impacts many dimensions

Inflation
Domestic demand
Activity

Relative competitiveness
Can partly offset tariffs

Financing conditions
Investment
Wealth effects

Govt consumption
Public sector investment
Financing conditions

Summary

- Global real GDP growth will slow from 3.2% in 2018 to 2.7% in 2019 and 2.6% in 2020, led by decelerations in world trade and investment.
- The US economy is supported by strong consumer finances, as well as fiscal & monetary stimulus.
- Despite policy easing, eurozone growth will average just 1.0% in 2019–21. UK growth will diminish under a protracted and uncertain Brexit process.
- Growth in the Asia-Pacific remains strong although China's economic deceleration starts weighting on the region's economies.
- Economic risks have risen, but not enough to trigger a near-term global recession. These include US-China trade conflicts, hostilities in the Middle East, rising debt levels, and political uncertainty in many parts of the world.
- Low interest rates and sizable fiscal deficits in many countries leave little scope for policy stimulus in the next recession.