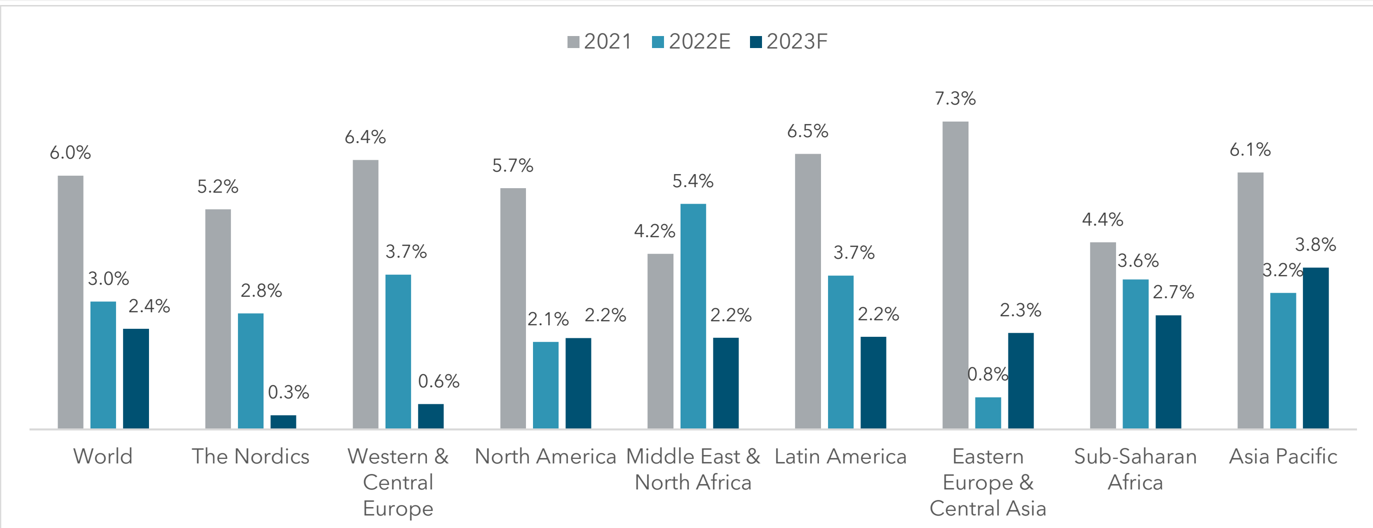
Global Economic Outlook – November 2023

Beyond Oil Price Spikes, Businesses Must Weigh Setbacks to Inflation and Investment Prospects from Israel-Hamas Conflict.

"The Israel-Hamas conflict, which broke out in October, has the potential to destabilize the Middle East, and potentially the wider global economy. It is impossible to predict how the conflict will unfold, but an escalation would likely result in an oil price shock, whether in terms of an exceptionally high spike, or elevated prices for a long period of time. Either could have serious ramifications. Advanced economies could lose the vital gains they have made on inflation, while emerging economies dependent on imported energy would suffer. And although Europe has prepared well for the coming winter, higher energy prices could significantly impact the region. The conflict is a reminder of the complex risk environment we face, and a timely prompt to businesses to anticipate and plan for all kinds of risk, so as to be better placed for the vicissitudes of the economic cycle." – **Dr. Arun Singh, Global Chief Economist, Dun & Bradstreet.**



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A year ago, in November 2022, as the Russia-Ukraine conflict played out, businesses in Europe were worried about having the necessary energy supplies to power them through the winter. Fortunately, those worst fears did not materialize. The scramble for gas in the lead-up to winter led to sufficient stockpiling, and a milder winter than expected eased demand pressures. As 2023 draws to a close, we are witnessing another conflict unfold, this time in the Middle East, and the global economy is staring at another possible winter of worry.

It is worth highlighting that, while it has been four weeks since the outbreak of violence between Israel and Hamas, not much is certain about the future course the conflict may take. If market reaction is a gauge – oil prices jumped at the outbreak of the conflict before pulling back – markets seem to be feeling more confident about global energy supplies, for now. But if the conflict were to truly escalate, the implications are likely to be felt more broadly. The most extreme scenarios suggest an oil price spike up to USD150/barrel, which would grab headlines, but even a price of just above USD100/barrel for a sustained period could be equally (if not more) damaging. Either scenario would threaten to throw off-track the hard-earned gains on inflation reduction in advanced economies and could prove destabilizing for the fiscal and external accounts of emerging economies dependent on imported energy.

Two things will determine the extent of such an oil price shock. First is the degree of escalation of the conflict, both in terms of length (how long does this round of violence last) and breadth (who will get embroiled in the conflict). The length of the conflict will test the stock contingencies of economies, and the breadth will determine how much supply can get knocked off the market. Second is the prevailing supply and demand conditions if the next turning point in the conflict is indeed an escalation. It is worth noting that this conflict comes on the back of sustained oil production cuts from OPEC+ countries throughout 2023. Similarly, markets have been anticipating a growth and demand slowdown after two years of unprecedented monetary tightening, and yet, on balance, the global economy has continued to surprise on the upside. If production cuts were to extend into 2024, and a demand recovery in Asia Pacific, from strong growth in India to improving economic conditions in Mainland China, were to coincide with the resilience of the U.S. economy seen so far, the risk of an oil price shock may begin to seem underpriced.

Apart from oil prices, businesses should note that the conflict between Israel and Hamas has acted as a serious setback to stability in the Middle East, hurting long-term business and investment prospects in the region. It will also likely reset geopolitical alignments, possibly leading to a fresh round of disruptive trade restrictions and sanctions. Disruptions stemming from security threats along trade routes, the potential for terrorism in major urban areas in the West, and border controls to address migrant flows may introduce additional hurdles for supply chains that have only just begun to recover from the double impact of the pandemic and the Russia-Ukraine conflict. Finally, geopolitical risk premium has increased, and as tail risks fatten, the costs associated with managing them will also eat into corporate balance sheets.

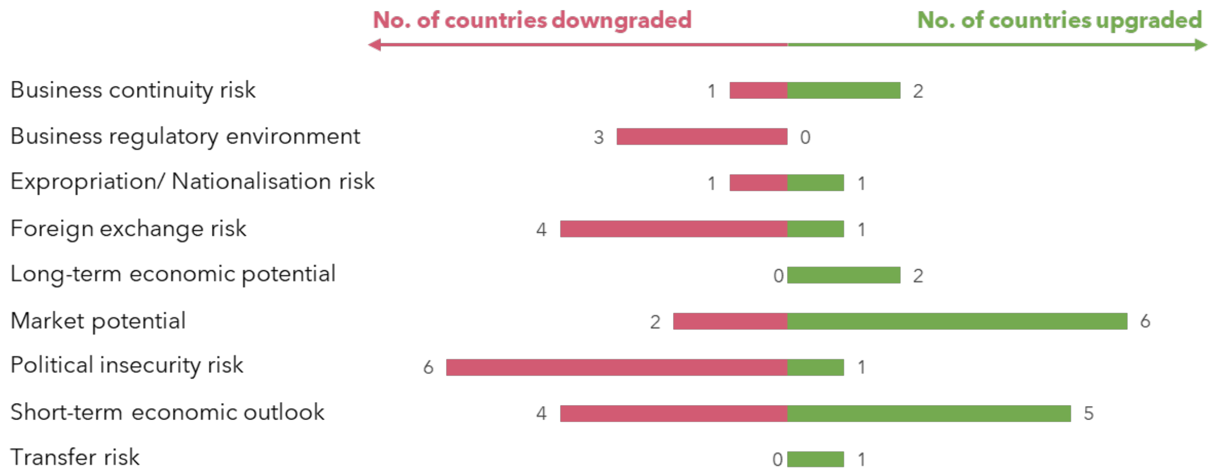
In a reminder of the nature of risk, having powered through the winter of 2022 strongly, the Eurozone economies faltered in mid-2023. With the world having recently witnessed a once-in-a-century pandemic, a stark reversal of inflation and interest rate dynamics, and with two major conflicts ongoing, the realm of likelihood seems to have widened. But even if the extreme scenarios of oil price shocks were to be avoided, businesses would do well to prepare for 'implausible' shocks, so they can deal with the benign reality of an economic cycle.

Movement in Country Rating & Environment Risks

Country Rating	Environment Risks			
	Credit	Market	Supply	Political
Poland Slovakia Ukraine Israel	Malaysia Poland Spain Chile Saudi Arabia	Botswana Philippines Spain Chile Israel	Nepal Venezuela Israel Panama Poland	Thailand Argentina Israel Italy Malaysia

Note: *Colors indicate Rating upgrade/Improvement in outlook, Rating downgrade/Deterioration in outlook*

Movement in Risk Dimensions



Source: *Dun & Bradstreet*

Rating Changes

Poland: Poland's election results point to the formation of a pro-European, liberal government, which would likely lead to the unlocking of EU funds that could help revive economic growth, policy alignment with the EU, and a business-friendly regulatory environment.

Spain: An improved growth and inflation outlook put Spain in sharp contrast with other large EU economies, which are suffering from zero or negative growth. After Alberto Nunez Feijoo's failed bid, Pedro Sanchez's return as prime minister seems imminent, with support from left-wing Sumar and possibly Catalan separatists.

Thailand: The establishment of a Pheu Thai-led government coalition, with support from some conservatives from the previous government, ends the long-running political stalemate. However, frustrations over the exclusion from government of the country's most popular party could continue to simmer.

Ukraine: The war-ravaged nation is witnessing a modest economic revival bolstered by improved conditions in the west and center of the country, with many businesses resuming operations. Inflation continues to fall, with life limping back to normalcy in areas not affected by the conflict.

Israel: Israel faces a prolonged conflict with ground invasions in northern Gaza. With a significant portion of the workforce called up to serve in the military, business conditions have deteriorated, impacting key sectors: tourism, retail, construction, and high-tech manufacturing, which comprises 50% of exports.

Saudi Arabia: We have lowered the real GDP growth forecast for 2023, marking a significant deceleration from 2022, as the country maintains a policy of cutting oil production. The recent escalation in the Israel-Hamas conflict is a major setback for the Arab-Israeli normalization process mediated by the U.S..

Key Market Updates

United States: Third-quarter growth came in at a strong 4.9% (q/q annualized) as the Federal Reserve kept rates on hold at its penultimate 2023 meeting. Election of a new House speaker allows legislative business to proceed as the expiry of the first stopgap funding arrangement nears.

Mainland China: Mainland China's economy continues to show signs of stabilization, but with stimulus effects not yet fully played out, growth expectations remain modest. Newly announced export controls on graphite could potentially hurt supply chains of battery manufacturers from the U.S. and South Korea.

Germany: The German economy has deteriorated over the past few months. High interest rates are weighing on domestic demand, with households holding back spending, while exporters are struggling with soft external demand.

United Kingdom: The UK economy is experiencing renewed signs of stress, with hard and soft data underlining the risk of recession and the Bank of England keeping rates on hold amid still elevated inflation.

Argentina: Argentina's Peronist coalition outperformed predictions in the general election, setting the stage for a polarized runoff between Economy Minister Sergio Massa and right-wing libertarian challenger Javier Milei. However, even if Milei wins, enacting radical policies might prove challenging due to a lack of parliamentary consensus.

India: The completion of Dedicated Freight Corridors will reduce transit duration and freight costs, spurring the establishment of new industrial hubs and attracting foreign investment. While economic momentum is helped by domestic factors, global economic uncertainty related to an escalation of the Israel-Hamas conflict remains a downside risk.

Philippines: Stubbornly high and rising inflation prompts an off-cycle rate hike, raising concerns that Philippines' businesses will face higher borrowing costs even as trade deals open more market opportunities.

South Africa: A USD1bn loan from the World Bank to reform the energy sector and several deals with Mainland China to restructure the struggling state-owned power utility Eskom will be positive in the long term but do little to help growth in 2023.

Venezuela: Reports of U.S. President Joe Biden's intention to unfreeze billions of dollars in Venezuelan assets underline the possibility of a diplomatic breakthrough that could lead to a softening of U.S. sanctions on Venezuela, improving long-term economic prospects.

UAE: Despite geopolitical uncertainties, the economy is doing relatively well, with the non-industrial sector giving a major boost and industrial activities remaining upbeat. However, the Israel-Hamas conflict threatens to destabilize the Middle East and, with the entry of non-state actors, there remains a risk of a major escalation across the wider region, thus posing a threat to the political environment.

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