



# Global Macroeconomic Update

Wednesday, March 30 2022

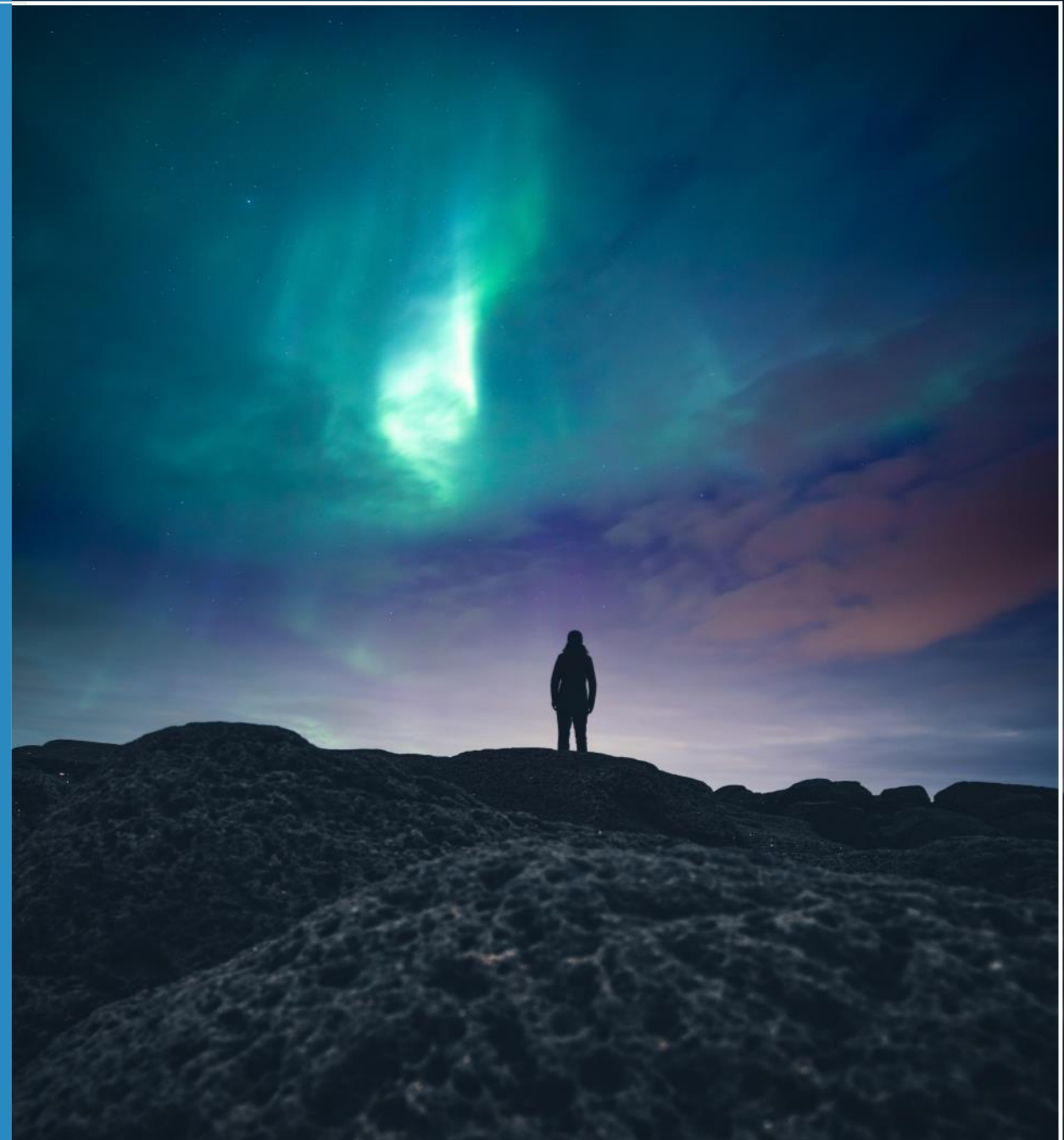
# Disclaimer

**THIS COMMENTARY IS PUBLISHED BY FITCH SOLUTIONS COUNTRY RISK & INDUSTRY RESEARCH and is NOT a comment on Fitch Ratings' Credit Rating. Any comments or data included in the report are solely derived from Fitch Solutions Country Risk & Industry Research and independent sources. Fitch Ratings' analysts do not share data or information with Fitch Solutions Country Risk & Industry Research.**



# Contents

1. Assumptions, Global Growth Forecasts & Key Revisions
2. Direct Growth Impact & Supply Chain Risks Of The Russia-Ukraine Conflict
3. Inflation Risks, Political Risk & Implications For Monetary Policy
4. Weakening Sentiment, Financial Market Volatility & Balance Of Payments Pressure
5. Growth Outlook
  1. US Economy To Slow
  2. Eurozone At Risk of Oil Shock
  3. Chinese Economy Facing Multiple Pressure Points
6. Risks To Watch



# The Ukraine War: Scenarios

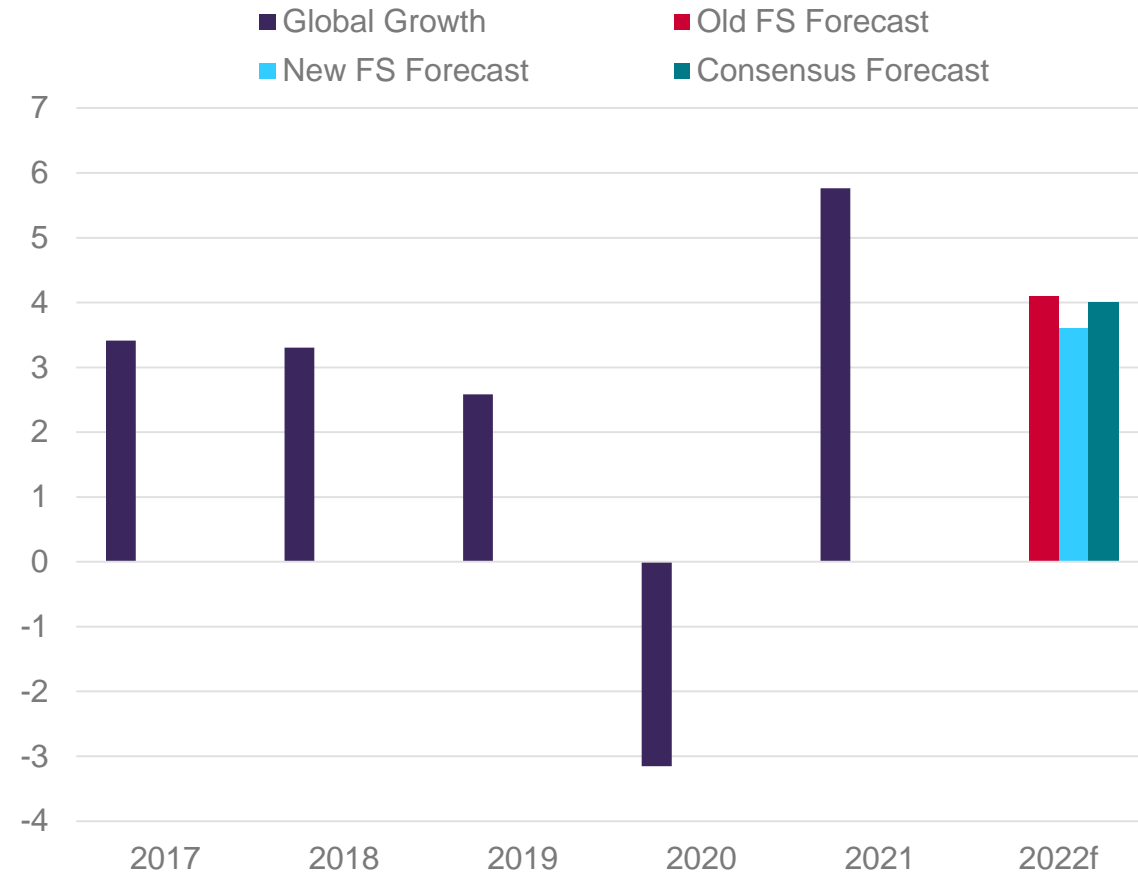
Scenario	Probability	Description	Key Implications	2022 Global Growth
<b>Scenario 1</b> <i>Core Scenario</i>	<b>50%</b>	<b>Fighting Continues into H222 before easing to a stalemate by end of year</b>  <b>Moscow is unable to make further substantial gains, but Ukraine cannot expel Russian forces</b>	<b>Sanctions continue into 2023, supply chain problems continue to bite</b>  <b>Commodity prices remain near current levels, inflation shock lasts until mid-2022, global monetary policy tightens</b>	<b>2.8%-3.6%</b>
Scenario 2 <i>Escalation</i>	25%	Conflict within Ukraine intensifies; more fighting in urban areas	Sanctions tighten into 2023, supply chain problems worsen, commodity prices remain high, inflation remains elevated, central banks tighten more aggressively	2.5%-3.0%
Scenario 3 <i>Negotiated Settlement</i>	20%	Russia-Ukraine peace agreement reached in 2022	Some sanctions are rolled back, supply chain situation stabilizes, commodity prices ease, monetary policy tightens less than in other scenarios	2.5%-3.8%
Scenario 4 <i>Contagion</i>	5%	Russia-NATO tensions spike, limited direct clash	Sanctions increase, market panic, safe assets rally, monetary policy reversal	1.0%-2.0%

Source: Fitch Solutions

# Global Growth Slowing, More Downward Revisions To Come

## Global Growth To Slow, But Remain Above Trend

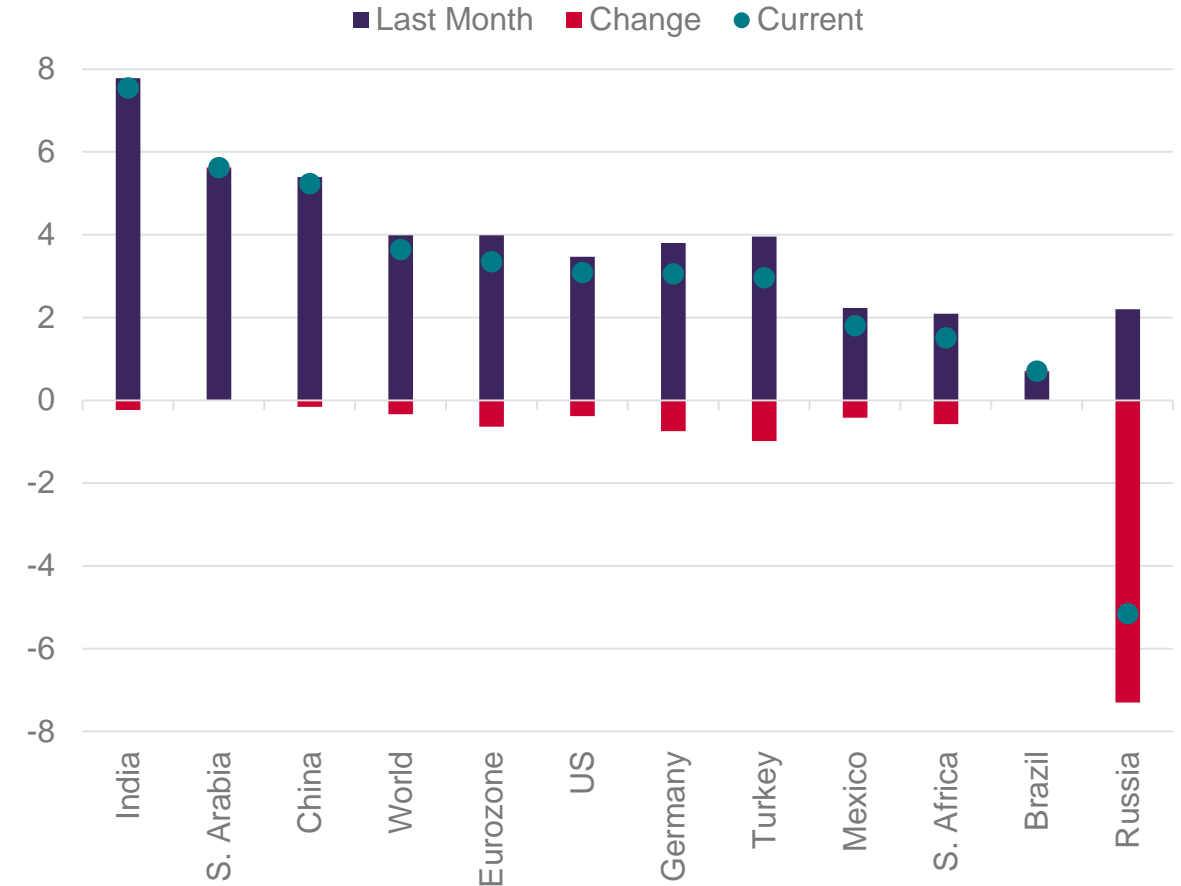
Real GDP Growth, %



f = forecast. Source: Bloomberg, Fitch Solutions

## Significant Revisions To Various Economies

Real GDP Growth & Revisions From February, %

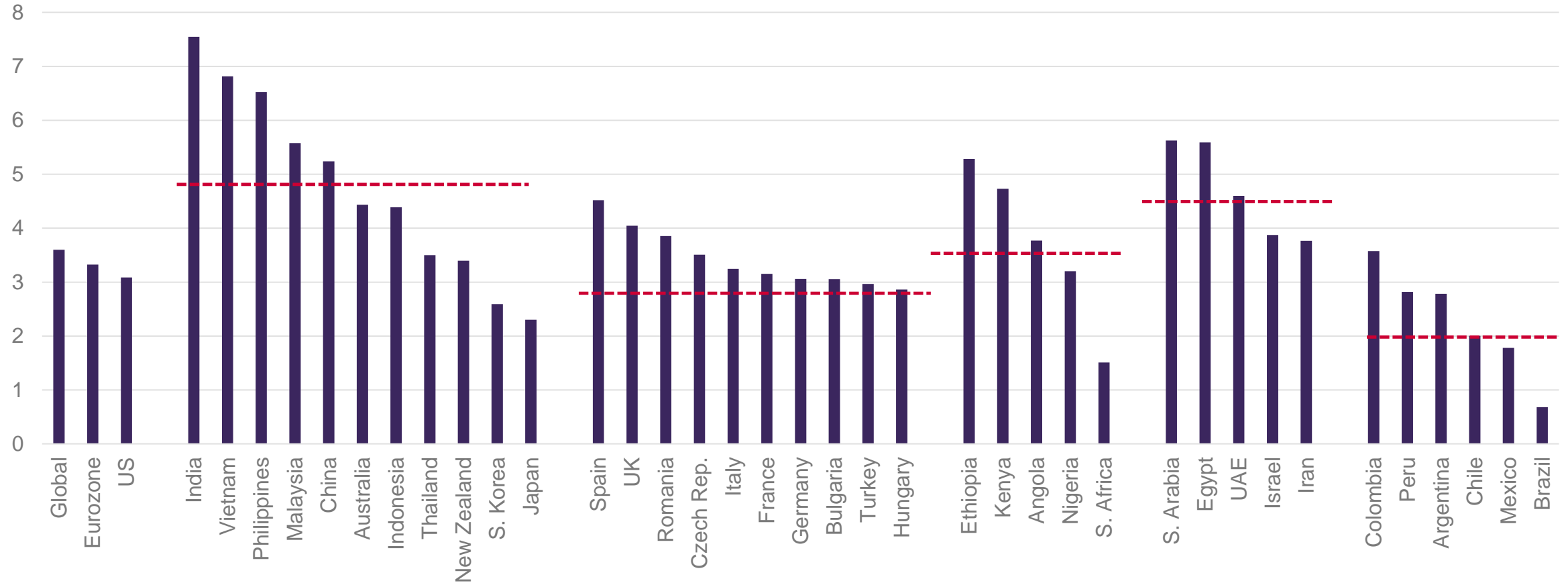


Source: Bloomberg, Fitch Solutions

# Global Growth To See Significant Variation

## Asia To Outperform, Latin America To Lag, Europe At Risk

Real GDP Growth Forecast & Regional Average, % (2022)

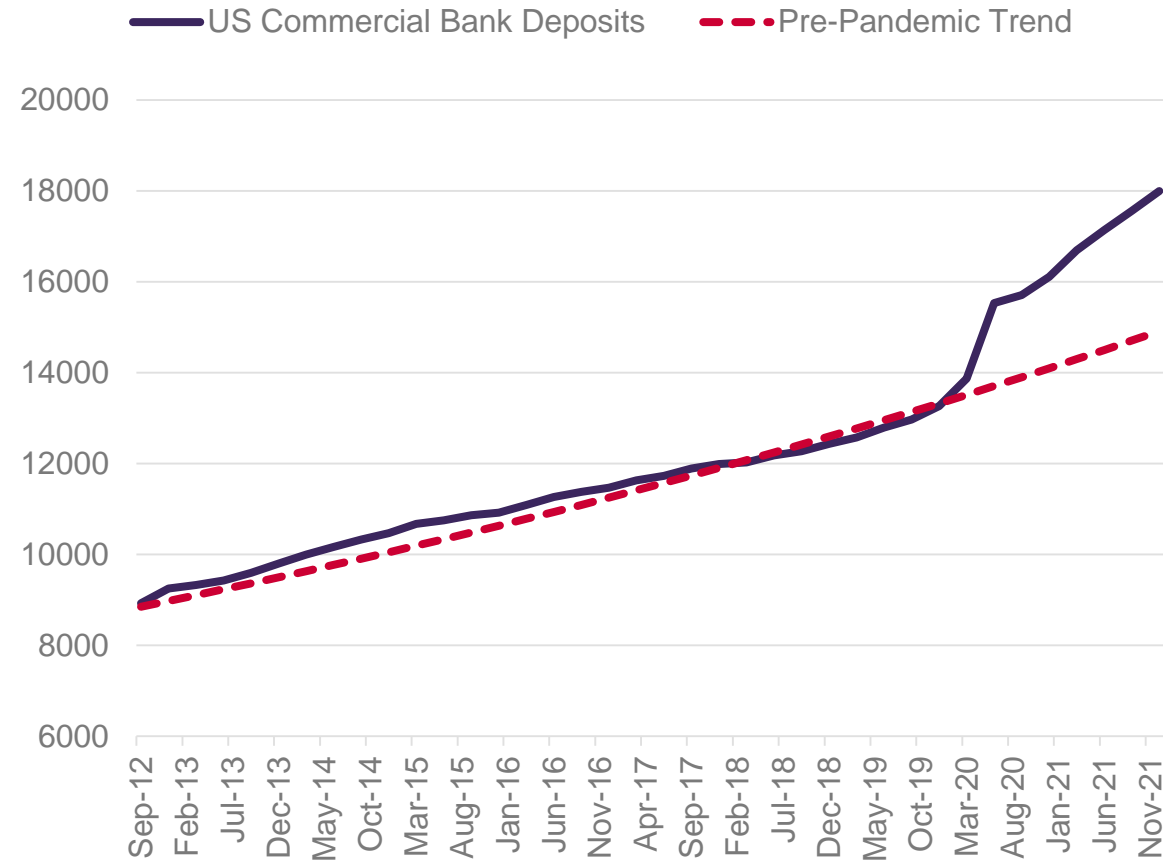


Source: Fitch Solutions

# Growth To Be Supported By Elevated Savings & Strong Labour Market

## About USD3trn In Excess Deposits At US Banks

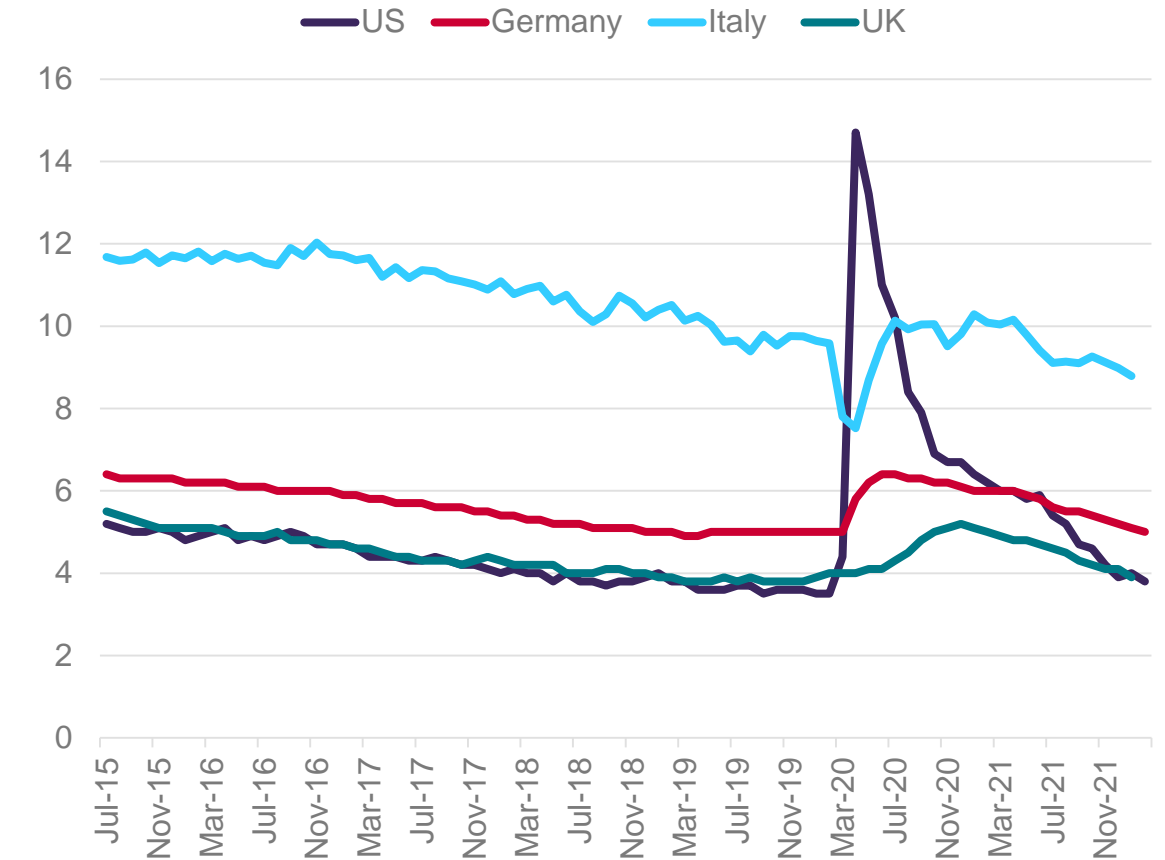
US - Bank Deposits & Pre-Pandemic Trend, USDbn



Source: Bloomberg, Fitch Solutions

## Labour Market Remains Strong

Unemployment, %



Source: Bloomberg, Fitch Solutions





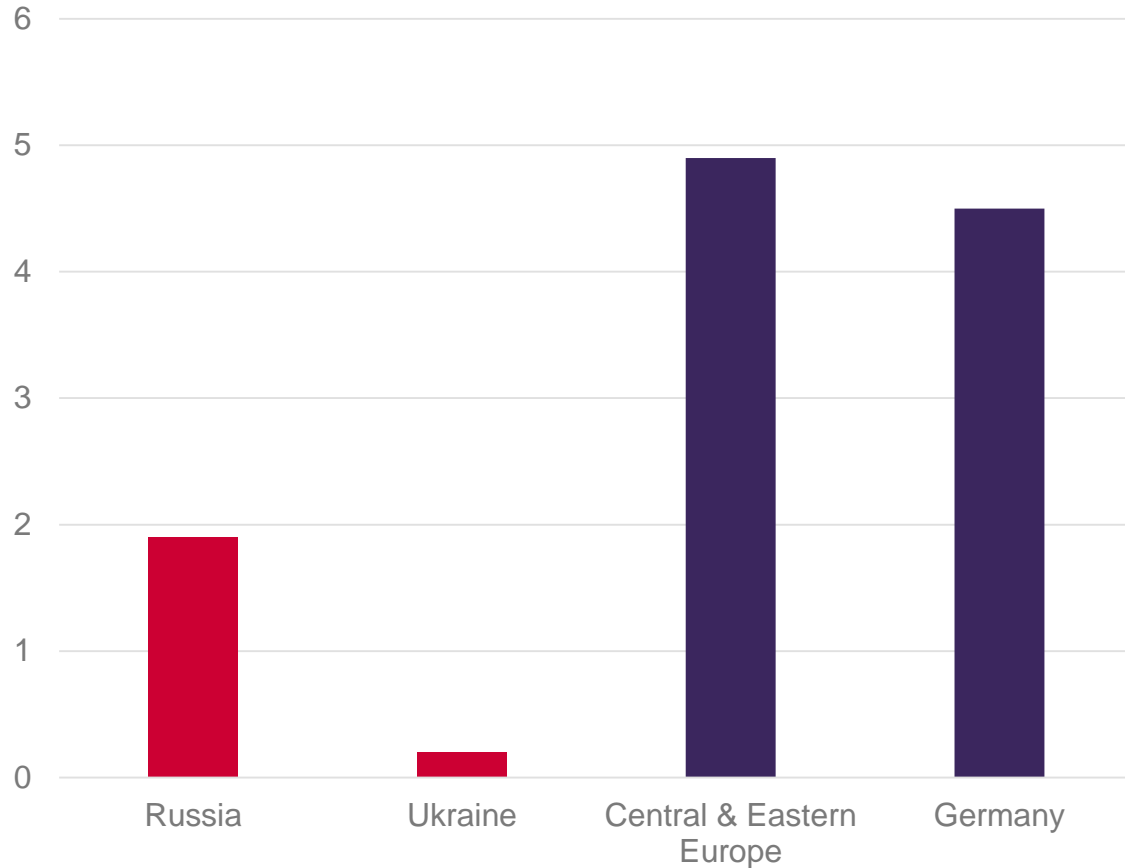
# Direct Impact Somewhat Limited



# Direct Impact Is Limited, But Second Round Impact Larger

## Russia And Ukraine Only Account For 2.0% of Global GDP

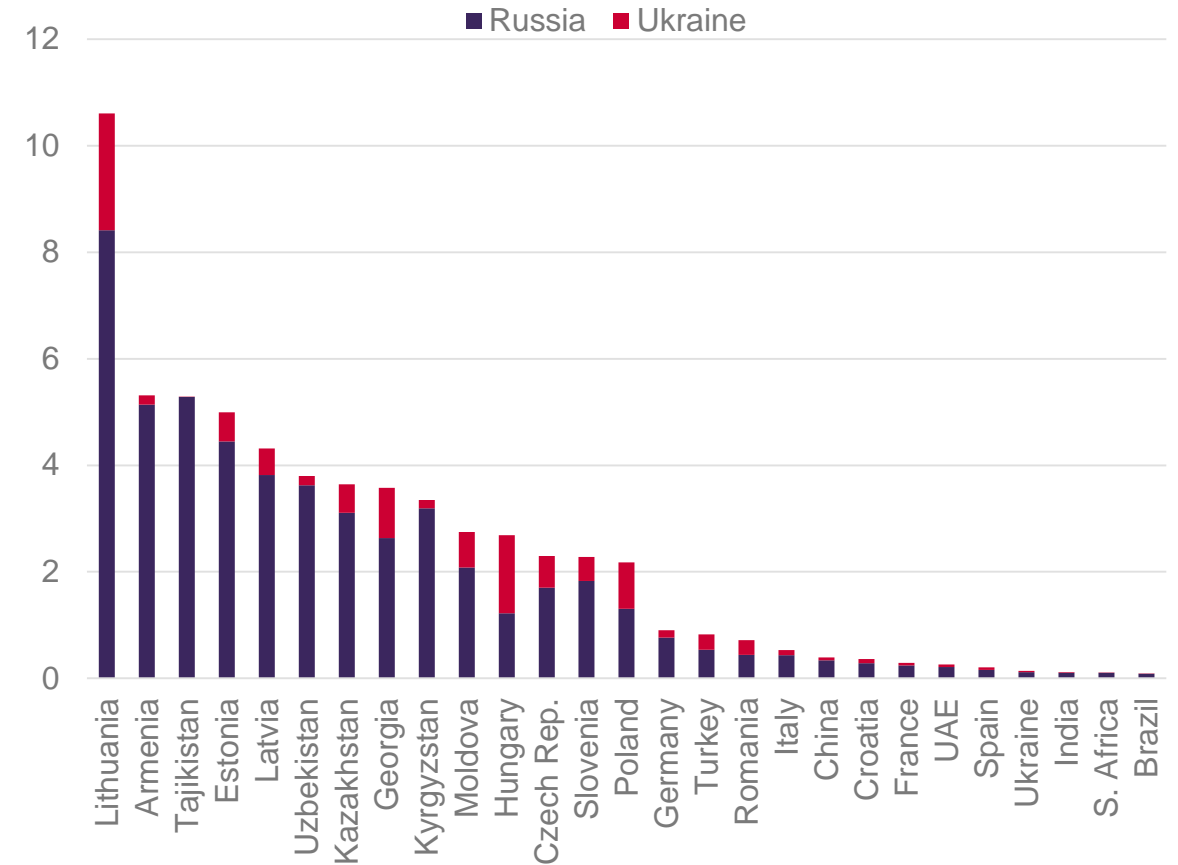
Share of Global GDP, %



Source: Bloomberg, Fitch Solutions

## Most Major EMs Have Low Exposure To Russia

Exports To Russia & Ukraine, % of GDP

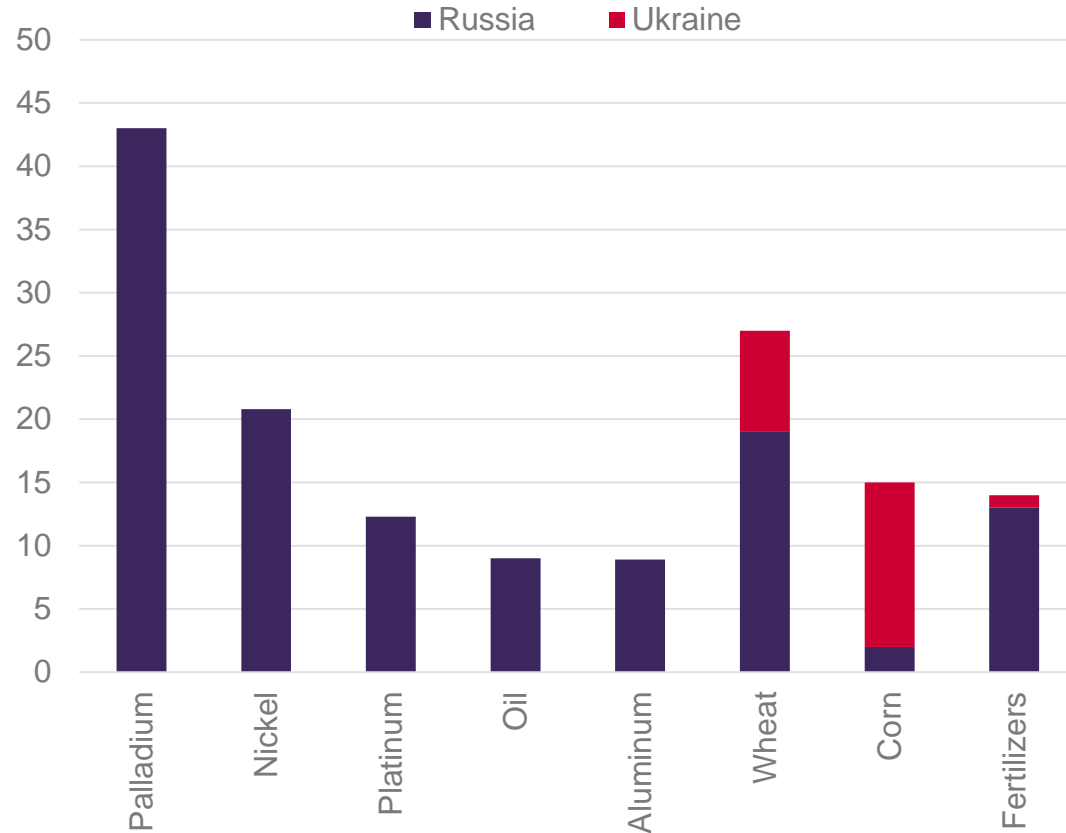


Source: Bloomberg, Fitch Solutions

# Supply Chain Risks Pose Significant Problems For Global Economy

## Russian Exports Are Important

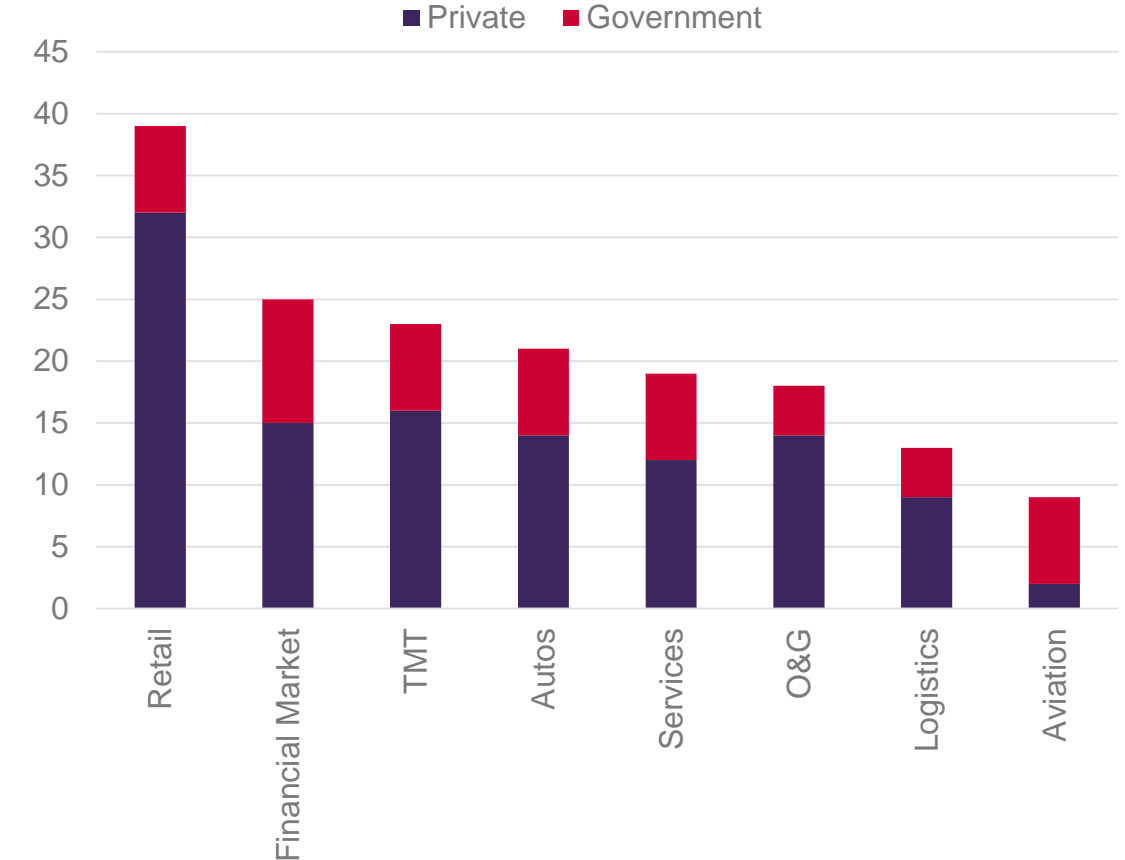
Exports As Share Of Global Total, %\*



\*Platinum/Palladium = % of Global Production. Source: Bloomberg, Fitch Solutions

## Multiple Sectors Are Getting Hit

Number Of Sanction Announcements Against Russia



Source: Bloomberg, Fitch Solutions



# Inflation, Political Risk & Monetary Policy

# Rising Commodity Prices To Push Inflation Higher

## Commodities To Add Upside Pressure To Inflation

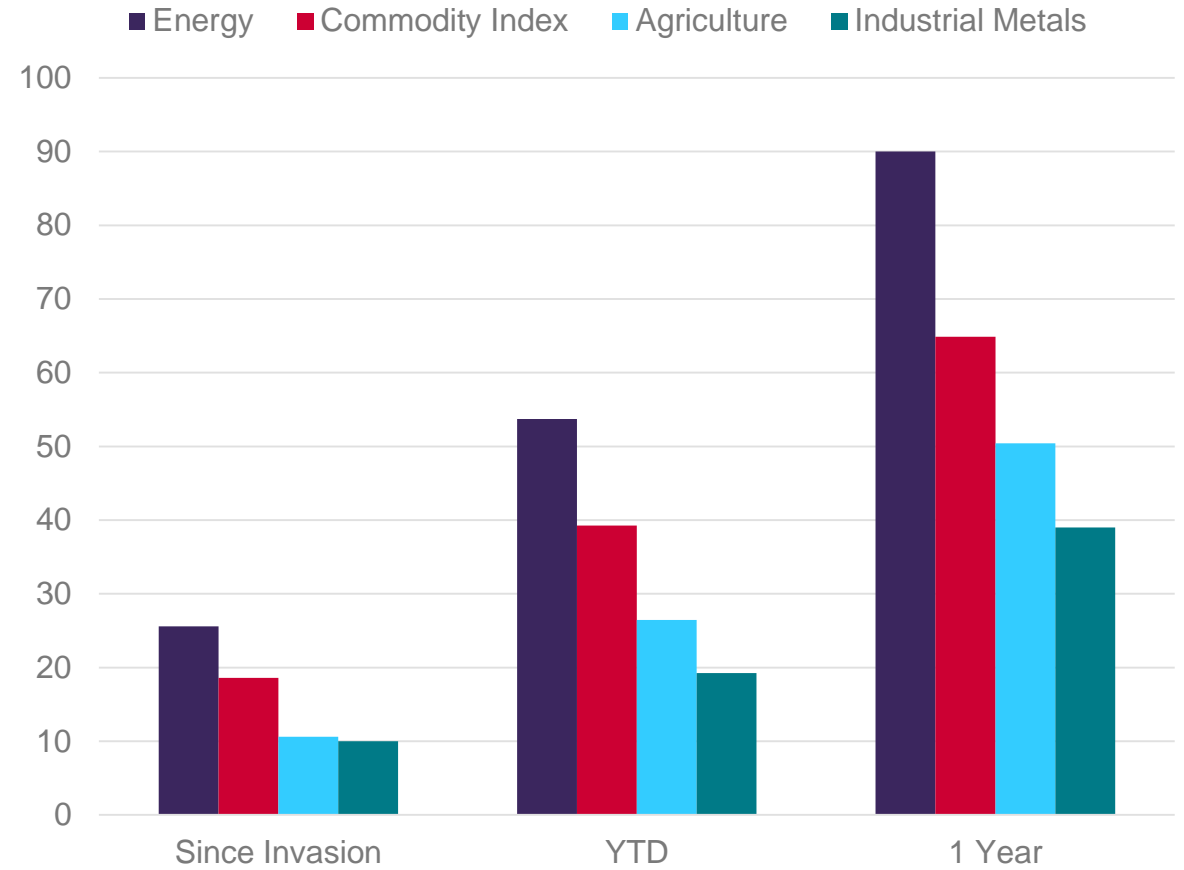
Bloomberg Commodity Index



Source: Bloomberg, Fitch Solutions

## Energy Prices Rising Quickest

Change In Commodity Index Price, %



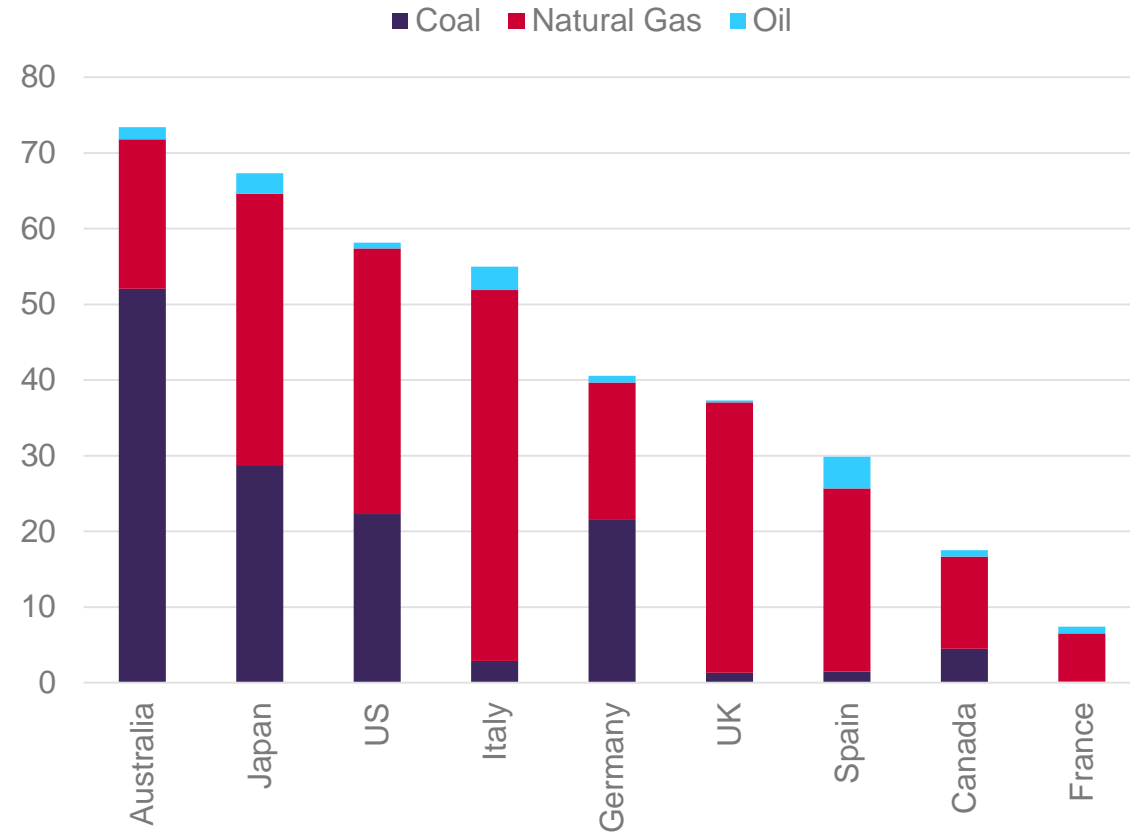
Source: Bloomberg, Goldman Sachs, Fitch Solutions



# Energy Costs Will Hit Markets With Higher Fossil Fuel Dependency

## Many Economies Still Dependent On Fossil Fuels

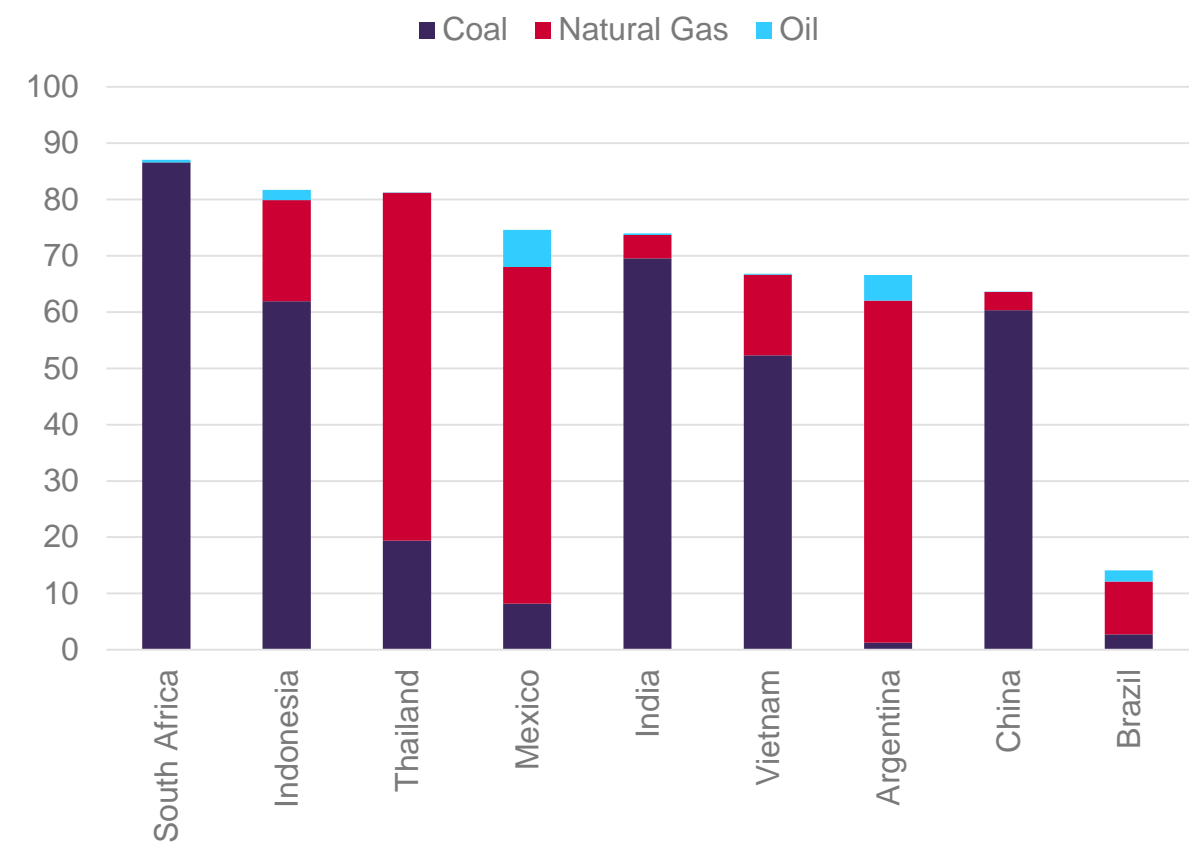
Power Generation By Source, %



Source: Fitch Solutions

## EMs Have Low Dependency On Renewables

Power Generation By Source, %

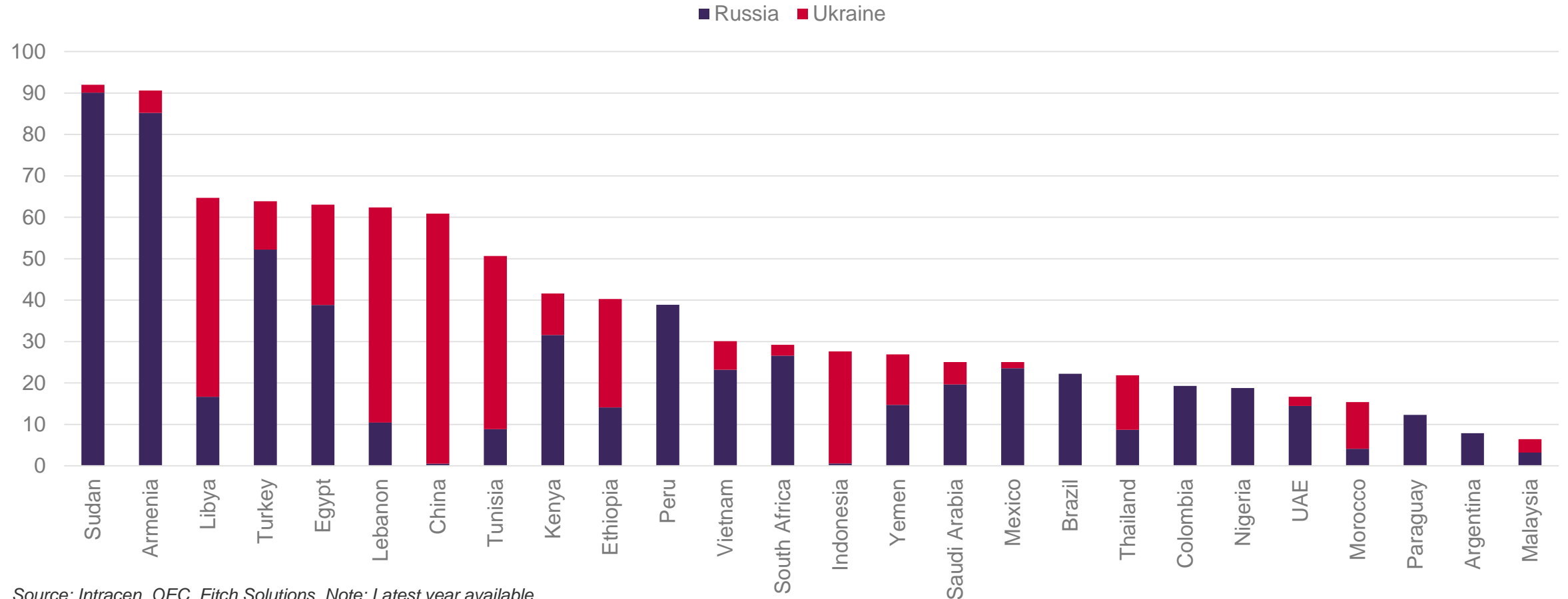


Source: Fitch Solutions

# Many EMs Are Heavily Dependent On Russian & Ukrainian Wheat

## Middle East North Africa Most Exposed

Wheat Imports, % of Total

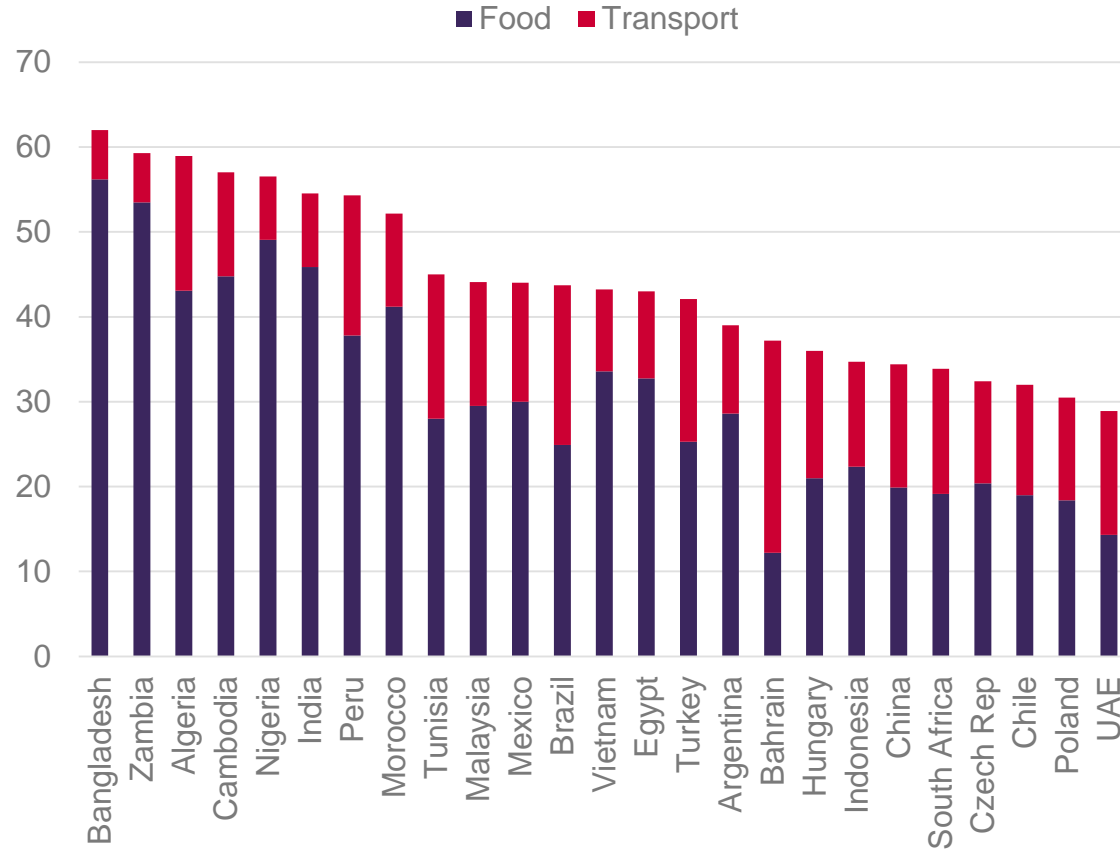


Source: Intracen, OEC, Fitch Solutions. Note: Latest year available

# Rising Food And Energy Prices Could Weigh On Political Stability

## Lower Income Economies Most At Risk

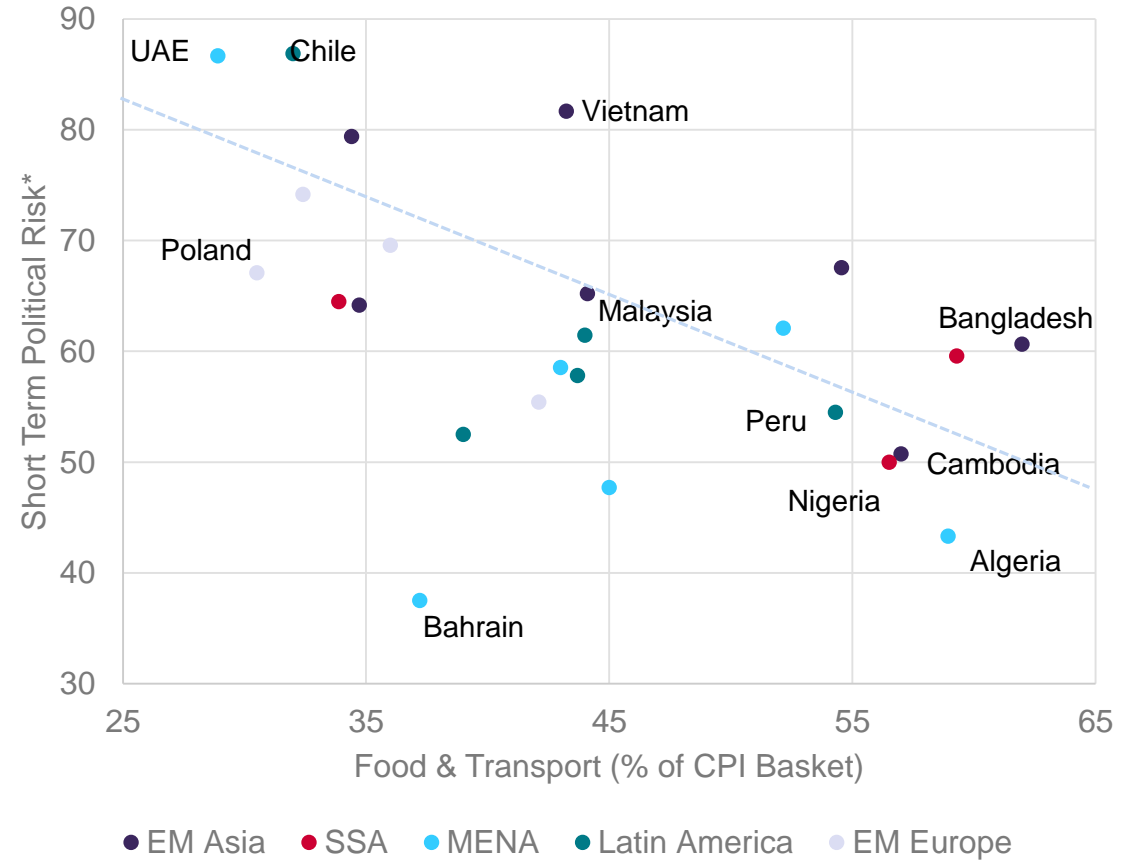
Food & Transport, % weighting in CPI basket



Source: National sources, Fitch Solutions

## Those Most At Risk Already Have Low Political Risk Scores

Food & Transport Weighting vs Short-Term Political Risk

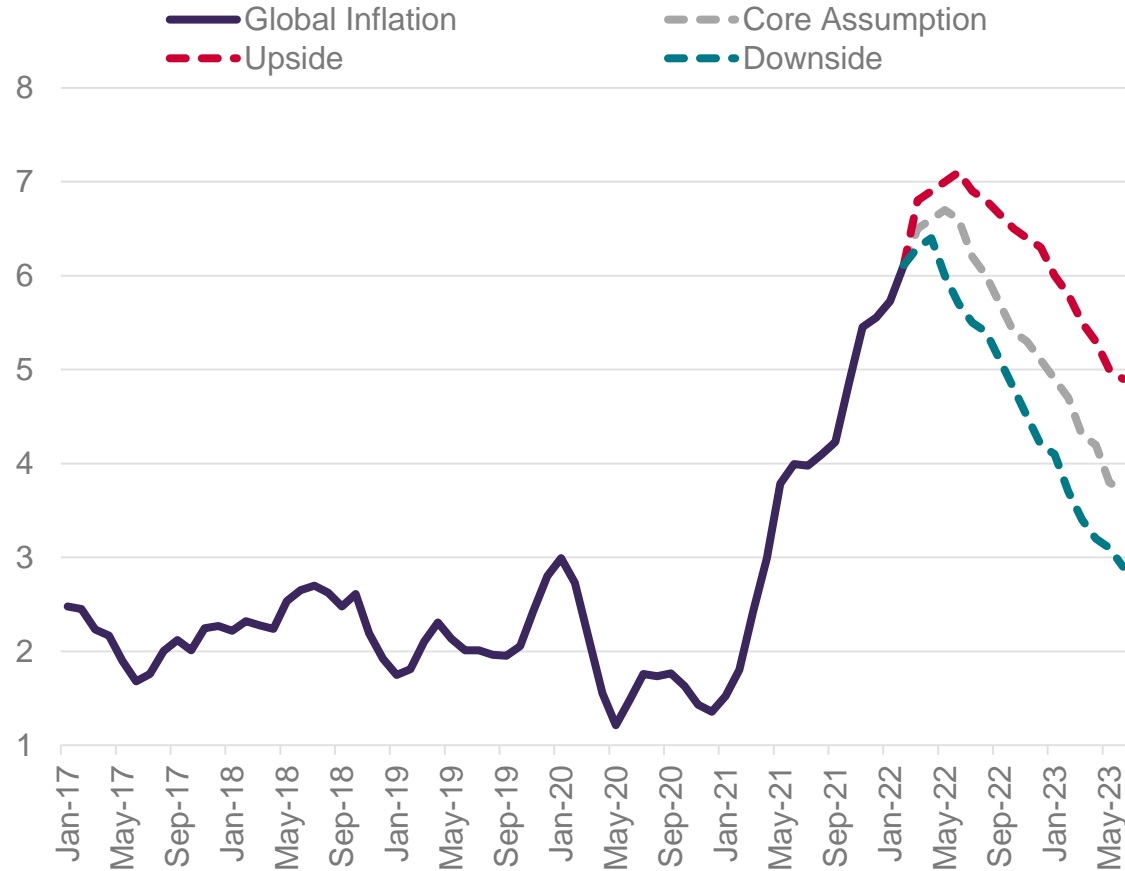


Source: Fitch Solutions, Note: \*Higher score indicates less risk

# Inflation Remains Sticky And Well Above Target

## Inflation Has Yet To Peak

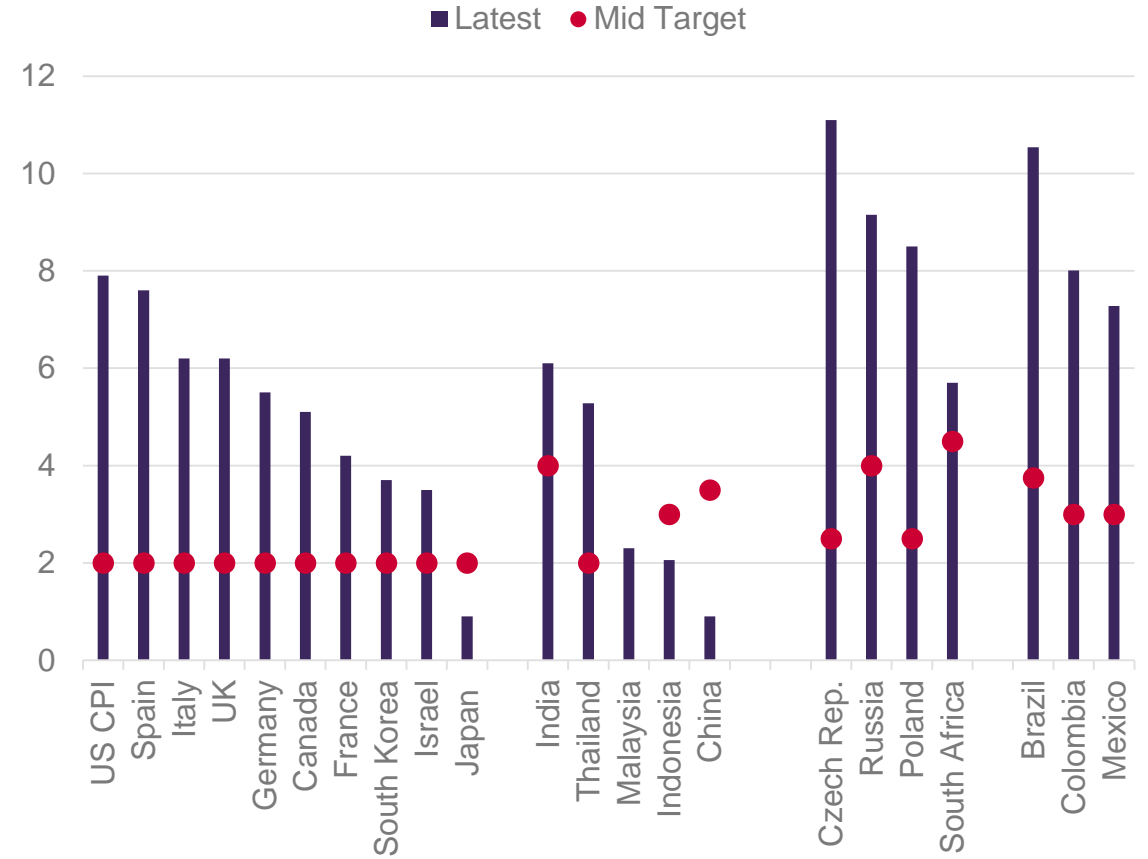
Global Inflation & Scenarios, %



Source: Bloomberg, Fitch Solutions

## Inflation Overshooting Central Bank Targets

Inflation Readings & Central Bank Mid Target, %



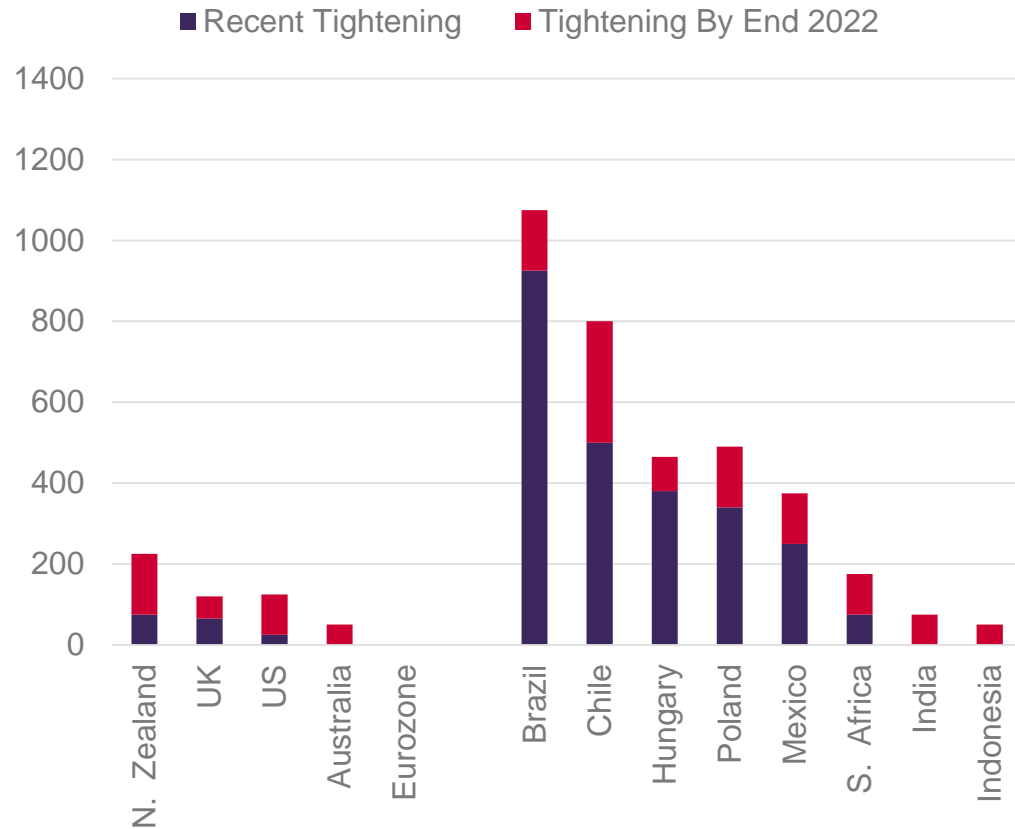
Source: Bloomberg, Fitch Solutions



# Central Banks To Remain Hawkish

## EMs Have Been Tightening Faster Than DMs

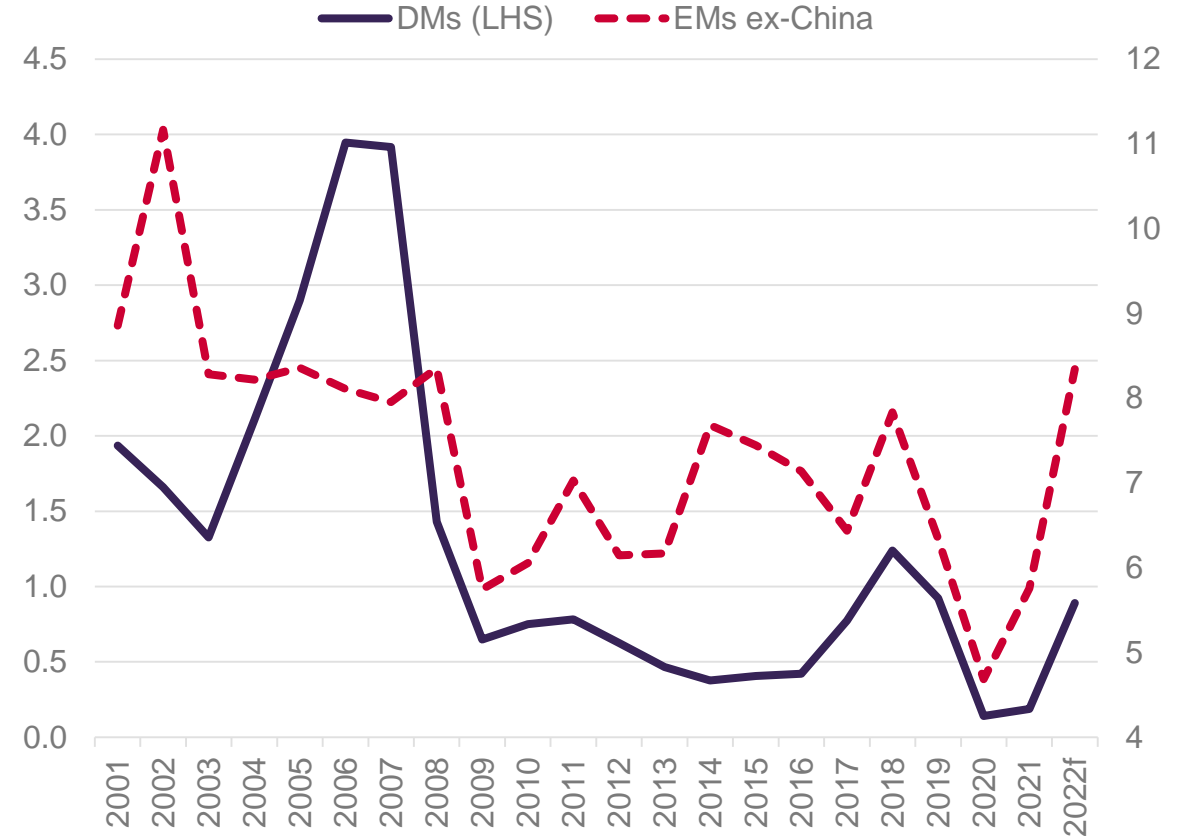
Increase In Policy Interest Rate & Forecast, bps



Source: Bloomberg, Fitch Solutions

## EM Rates To Rise To Highest Levels Since GFC

Average\* Policy Interest Rate, %



\*GDP Weighted. Source: Bloomberg, Fitch Solutions

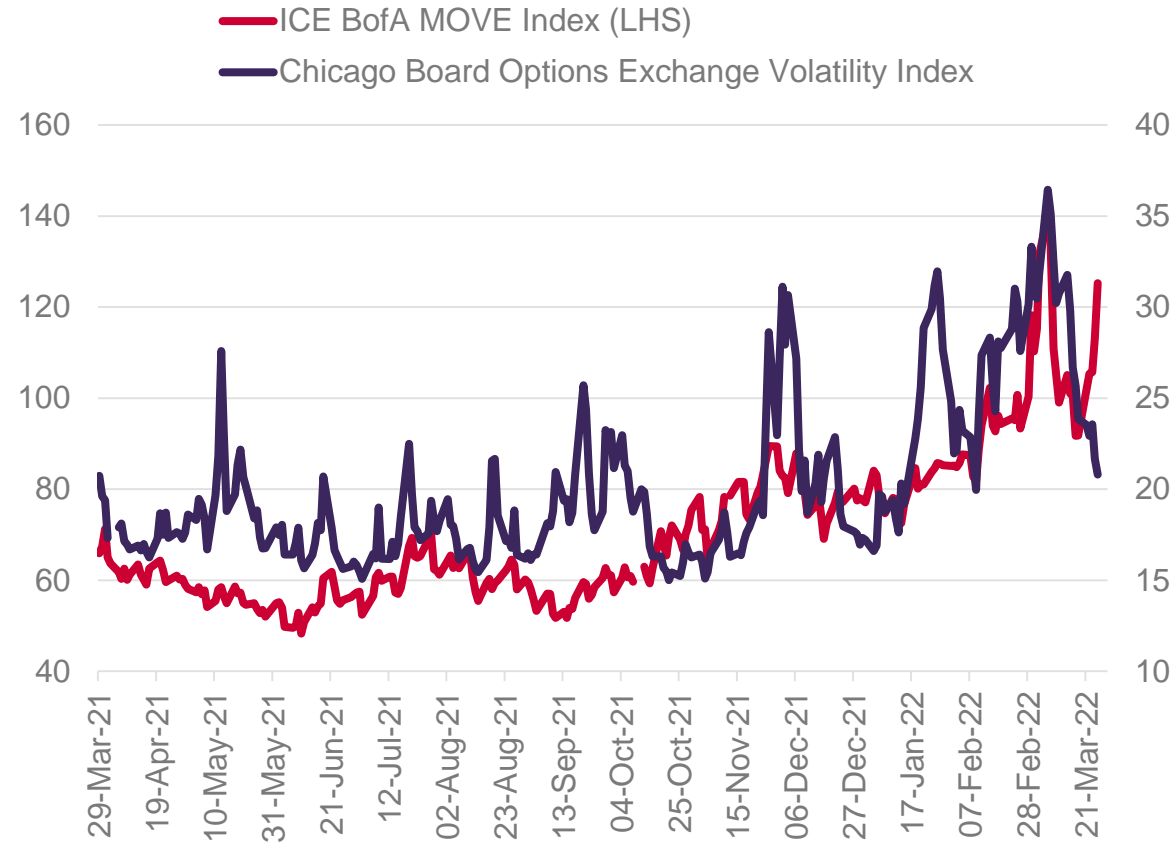


# Sentiment, Financial Markets & Terms Of Trade

# Financial Market Volatility Picked Up, But Is Starting To Ease

## Equity And Bond Volatility Increased, But Has Eased

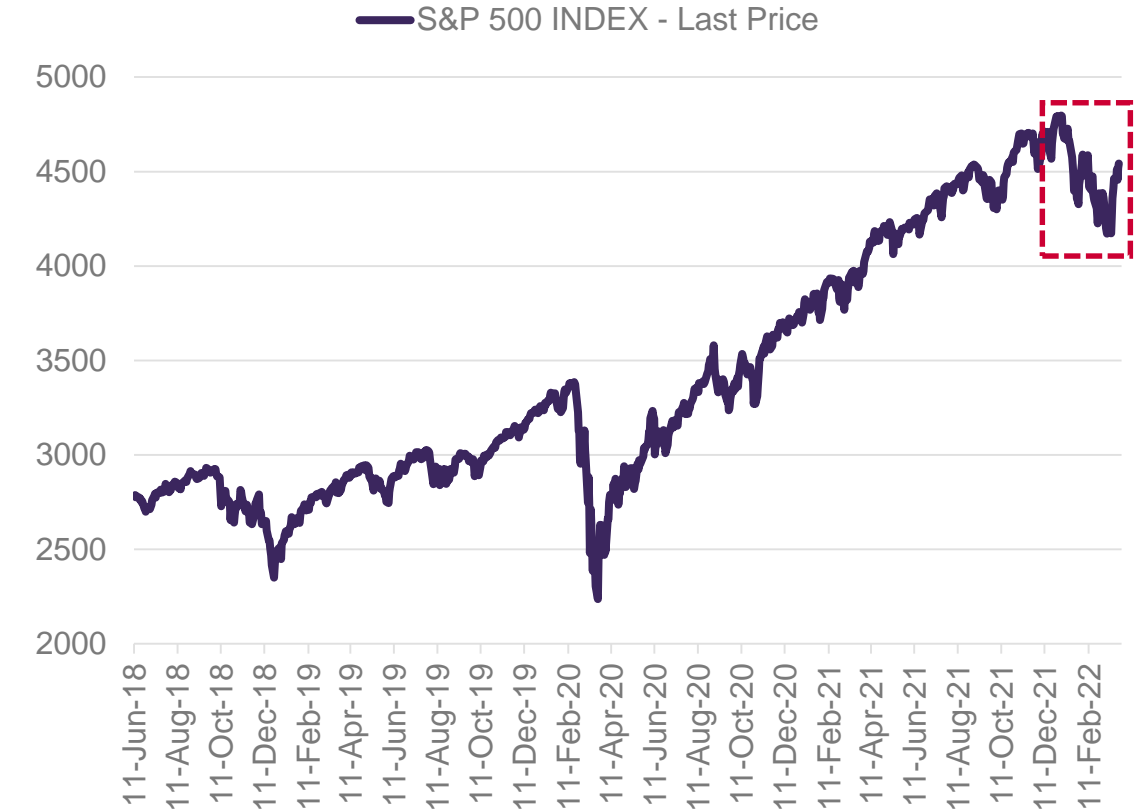
VIX (Equity) & MOVE (Bond) Indices



Source: Bloomberg, Fitch Solutions

## Equity Markets Stabilising Slightly After Sell Off

S&P 500 Index



Source: Bloomberg, Fitch Solutions

# US Dollar Strength Placing Slight Downside Pressure On EM FX

## Nine-Month Dollar Uptrend In Place

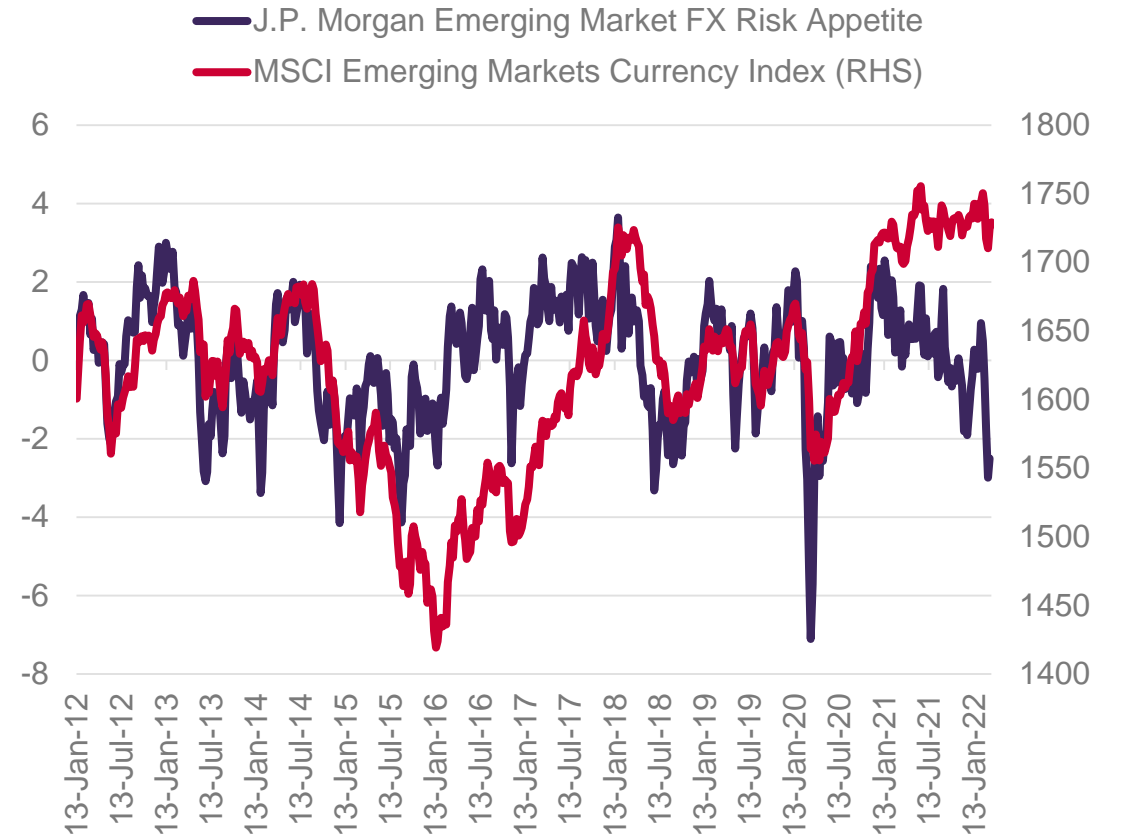
US Dollar Index



Source: Bloomberg, Fitch Solutions

## Emerging Markets Sold Off Slightly

Emerging Market Currency Indices



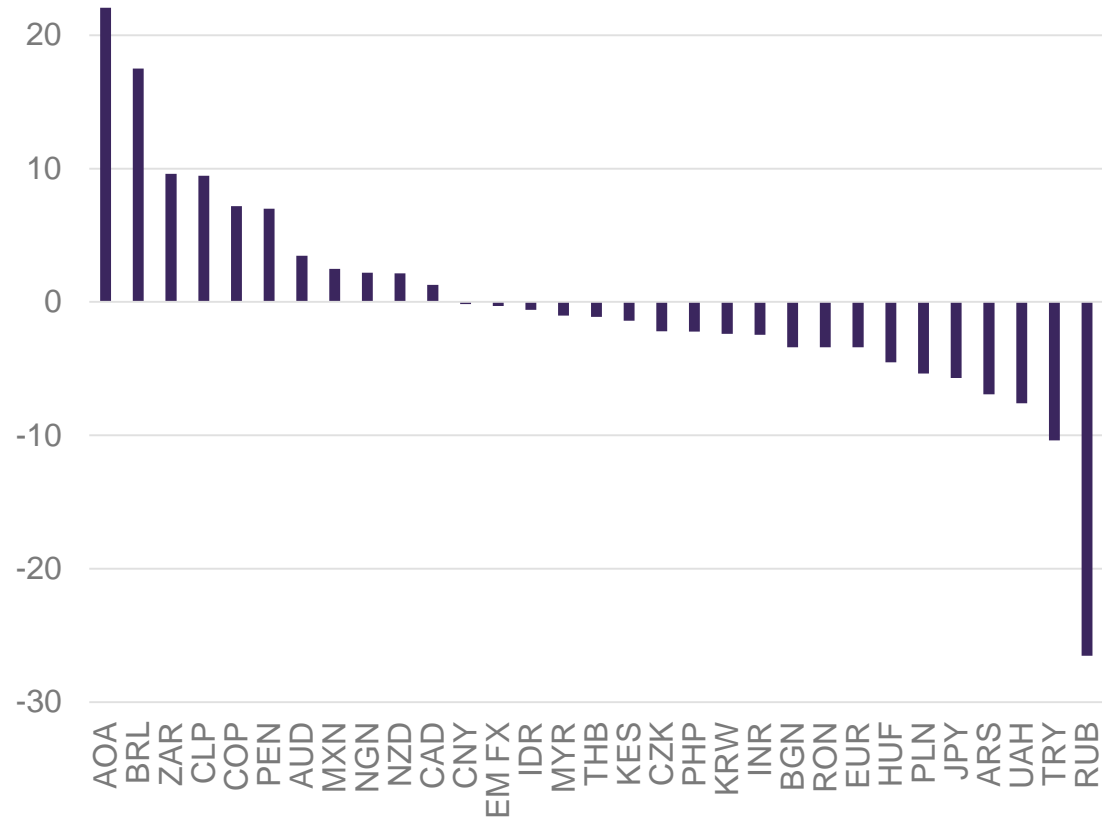
Source: Bloomberg, Fitch Solutions



# EM FX Has Held Up Well Despite Global Risk Aversion

## Emerging Market FX Has Been A Mixed Picture

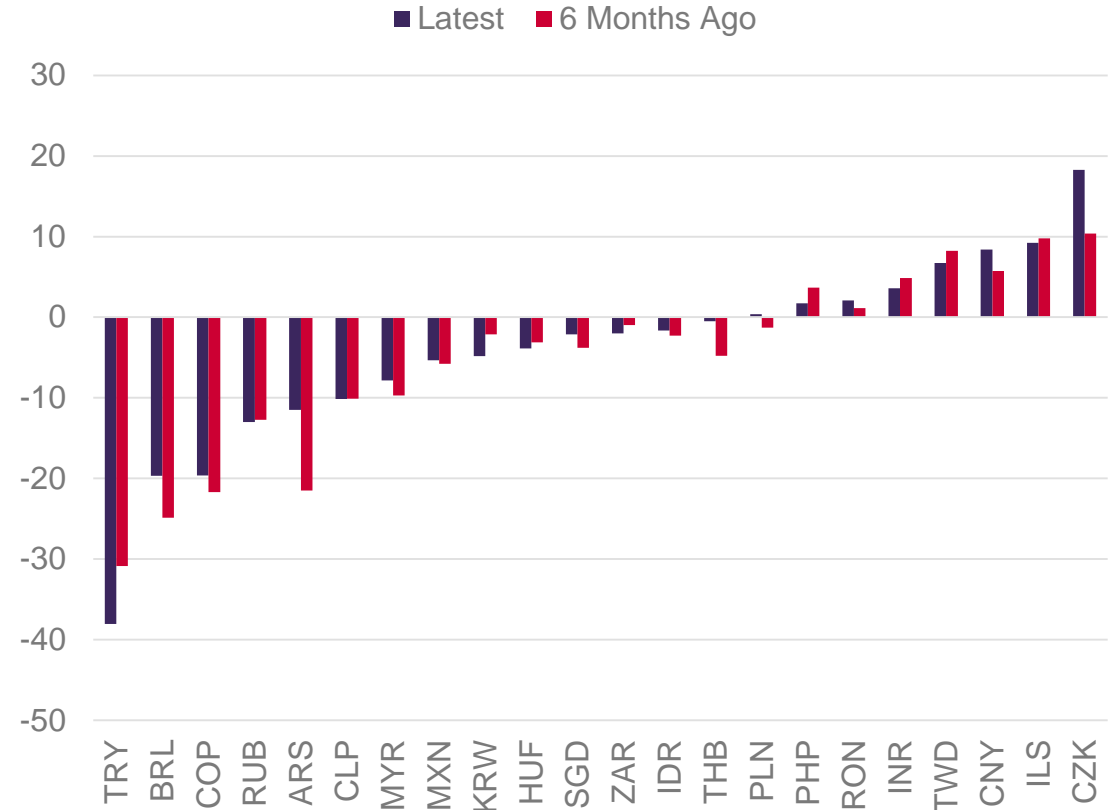
Currency Performance Year-To-Date, %



Source: Bloomberg, Fitch Solutions

## EM Valuations Remain Fairly Distributed

Real Effective Exchange Rate, deviation from 10-year average, %

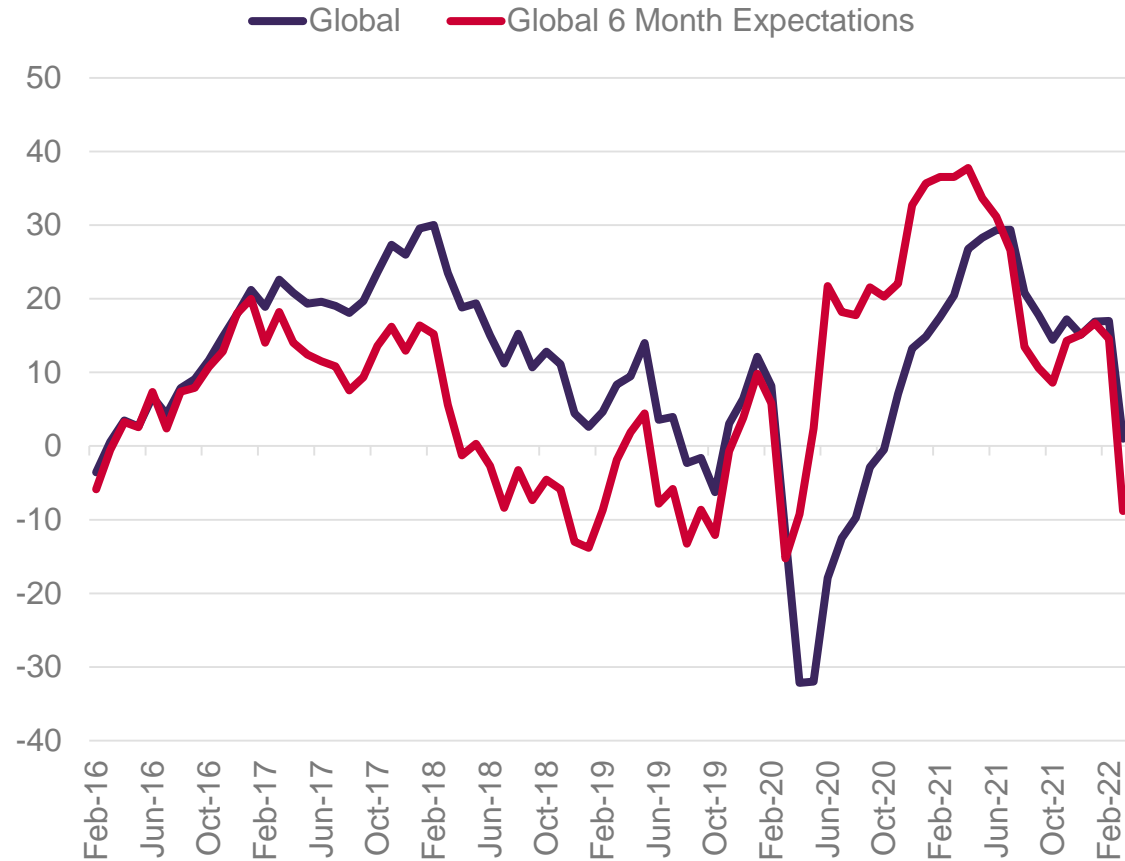


Source: Bloomberg, BIS, Fitch Solutions

# Survey Data Pointing To A Sharp Collapse In Sentiment

## Sentiment Falling Quickly

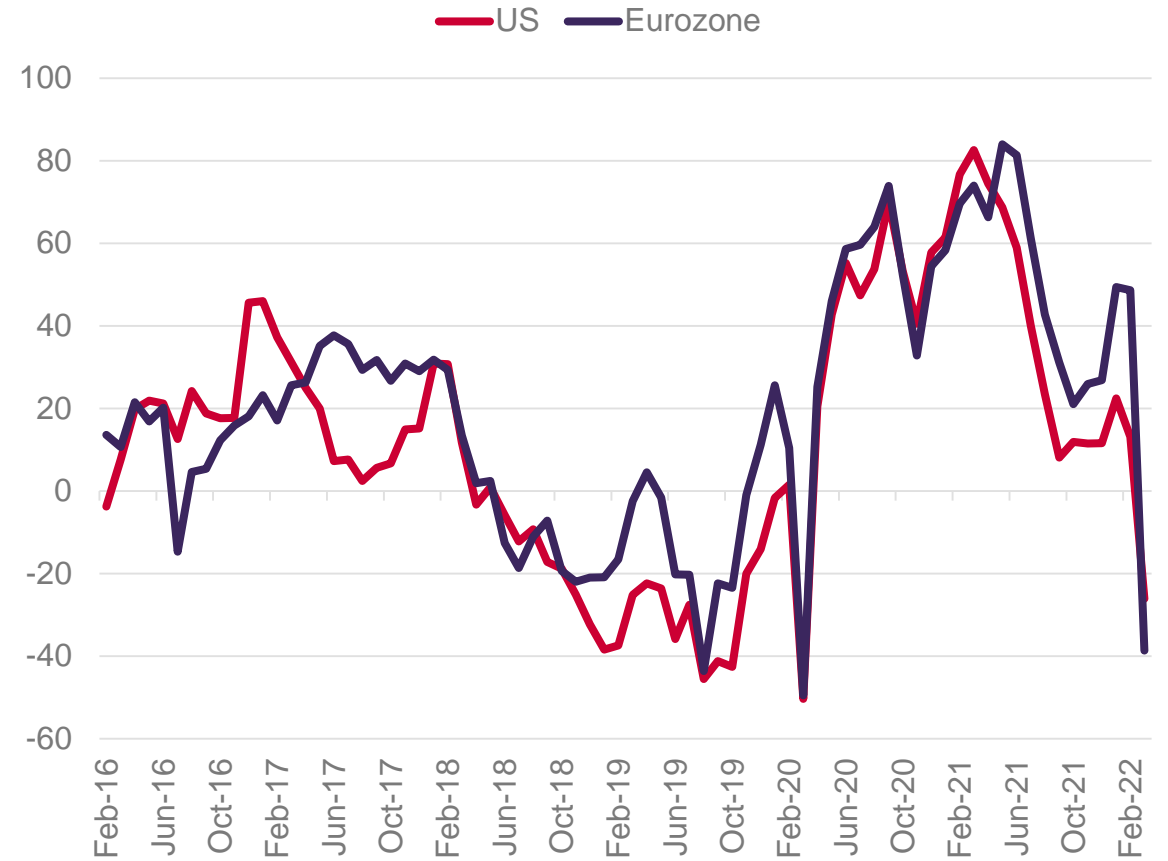
Sentix Sentiment Index



Source: Bloomberg, Fitch Solutions

## ZEW Surveys Point To Significant Concerns

ZEW Economic Growth Expectations Index

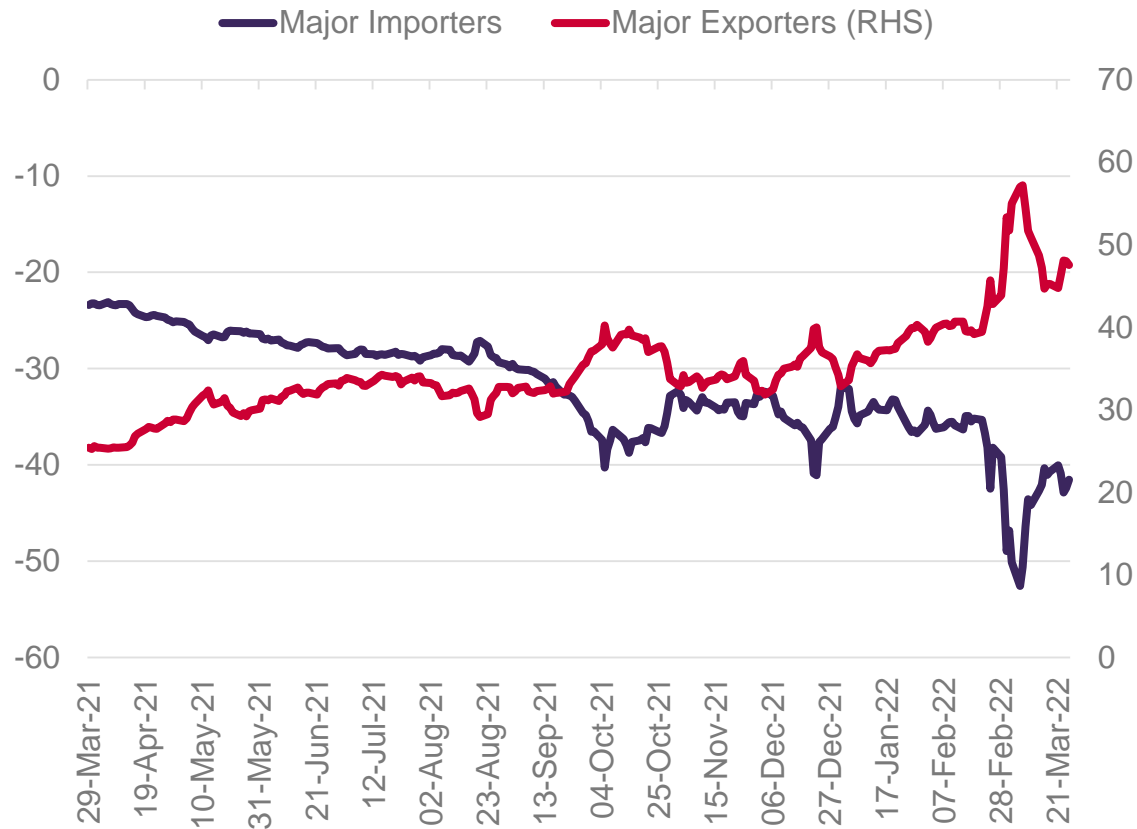


Source: Bloomberg, Fitch Solutions

# Balance Of Payments Position Could Be Impacted If Oil Remains High

## Terms Of Trade Worsening For Many Economies

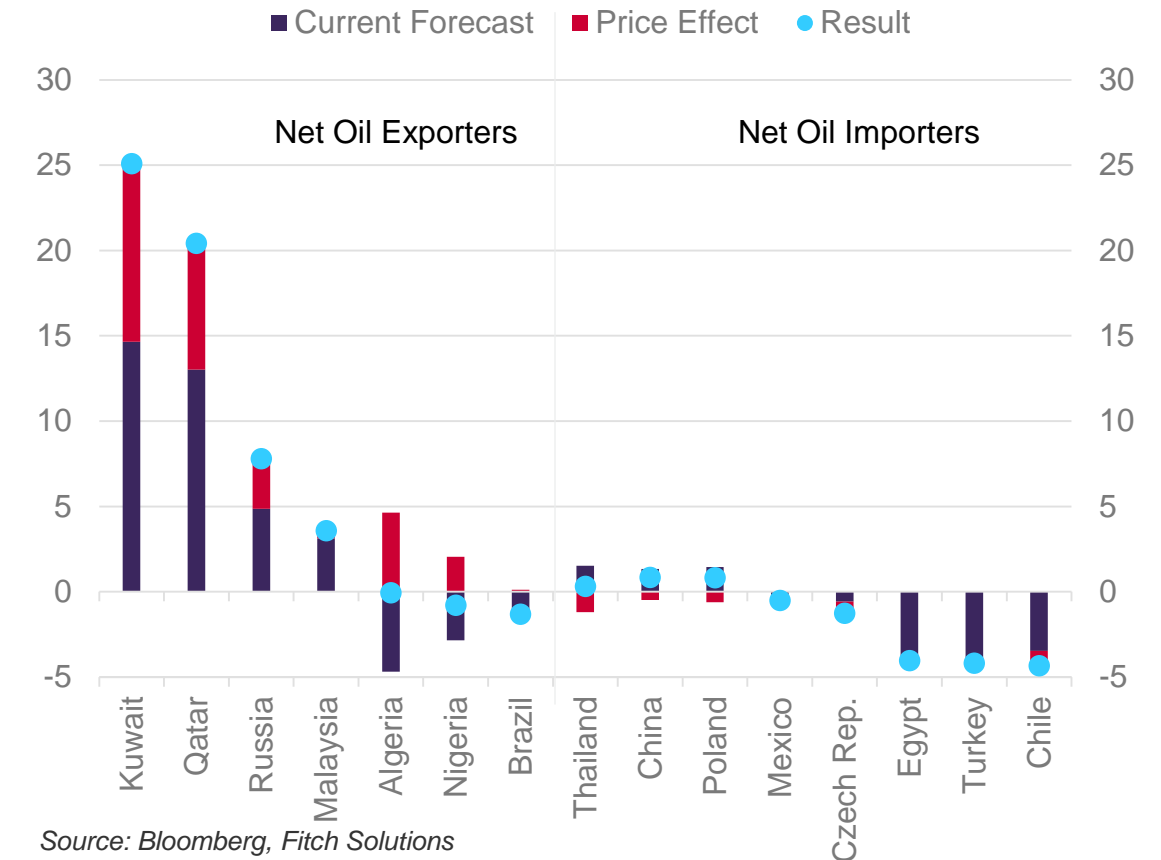
Average\* Terms of Trade For Commodity Importers & Exporters



\*Simple average of select economies. Source: Fitch Solutions

## Net Oil Exporters To Benefit, Most Other EMs To Suffer

EMs – Current Account Balance Estimate, % of GDP at USD125/bbl oil price



Source: Bloomberg, Fitch Solutions

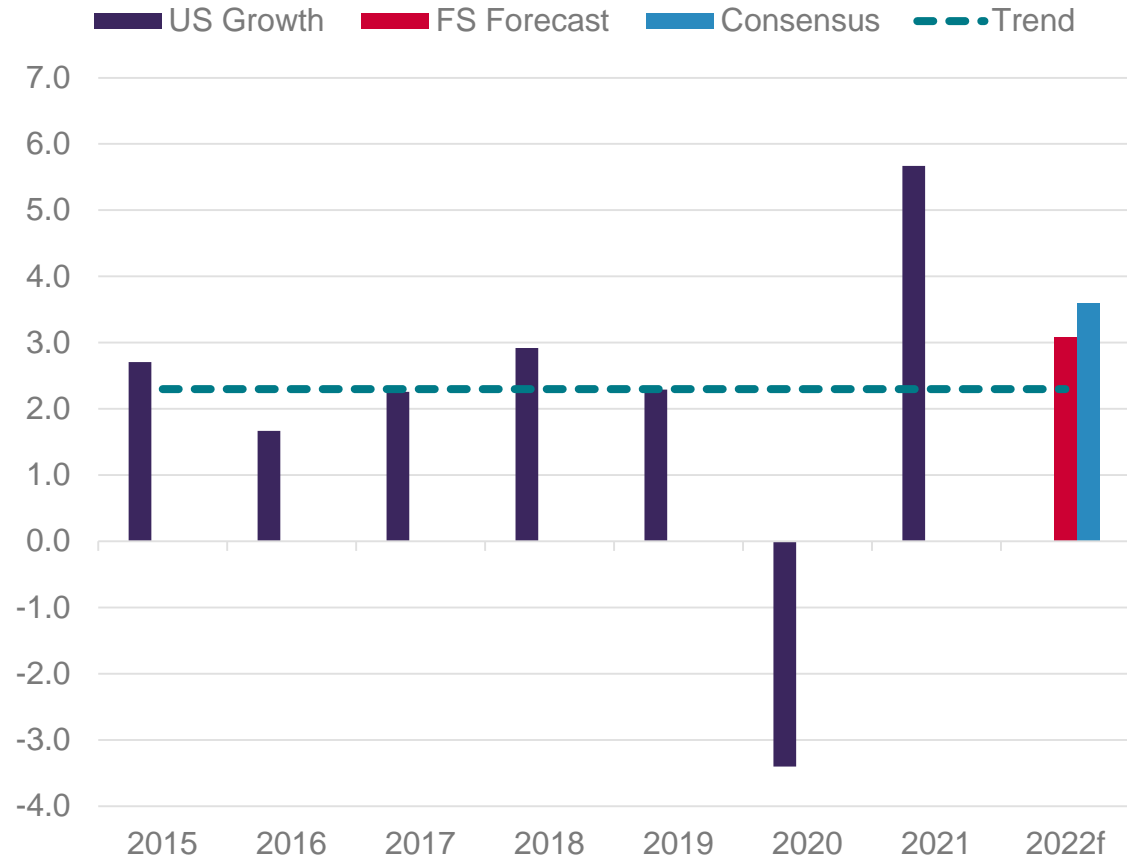


# US Growth Outlook

# Slower US Growth As Several Headwinds Arise

## US Growth To Come In At 3.1%

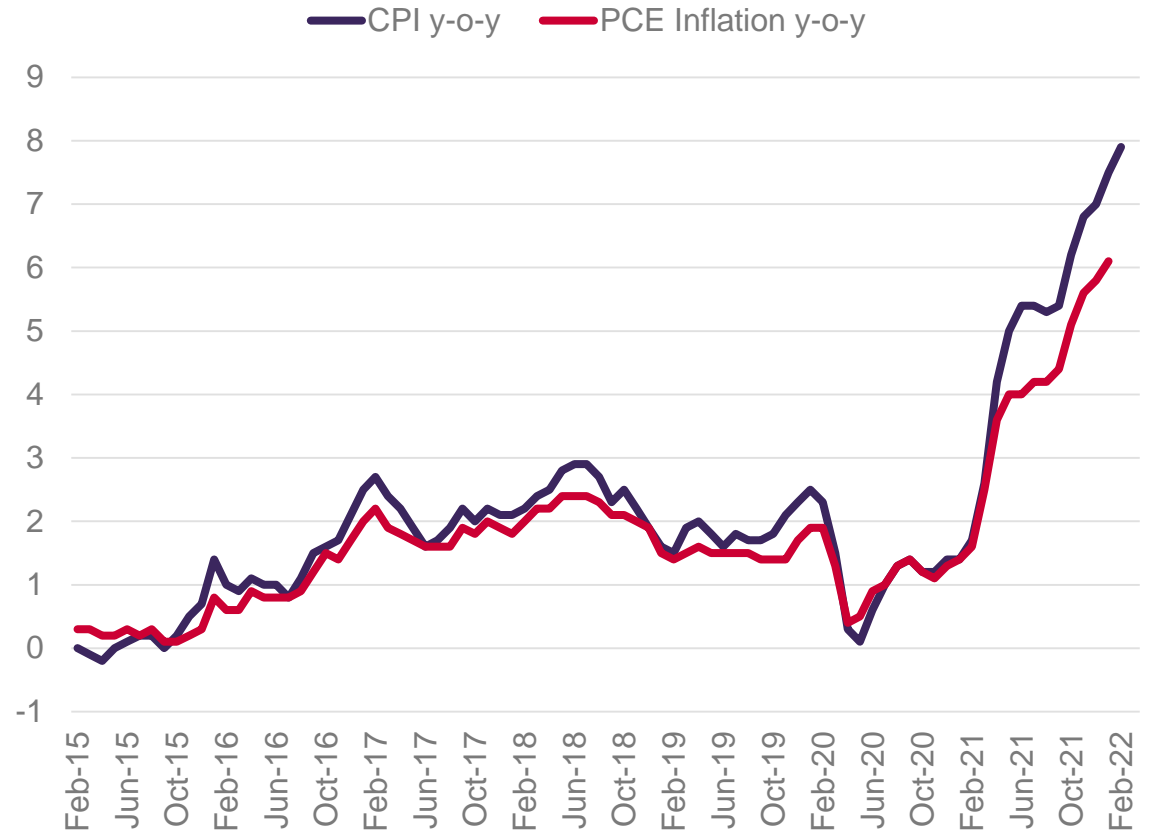
Real GDP Growth, %



Source: Bloomberg, Fitch Solutions

## Inflation In US Is Starting To Cause Problems

US - Inflation, %



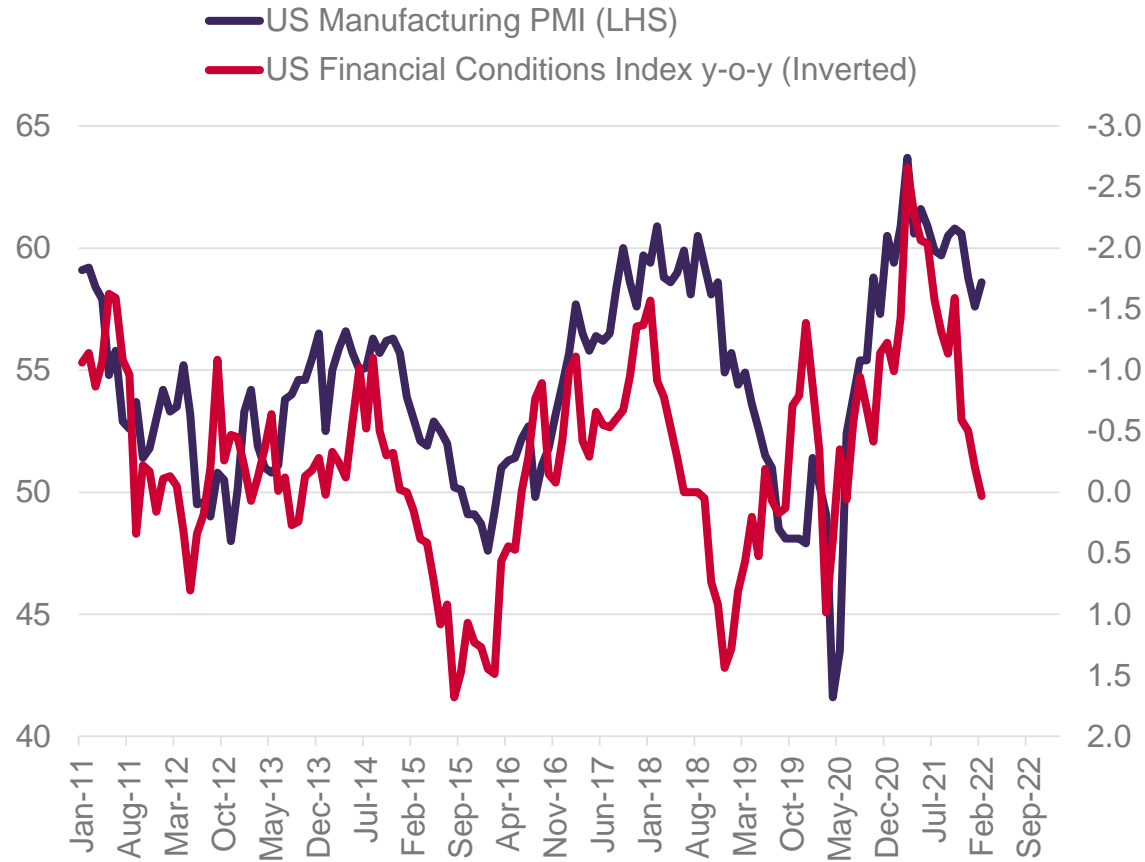
Source: Bloomberg, Fitch Solutions



# Financial Conditions Have Tightened Quickly

## Activity Slows As Financial Conditions Tighten

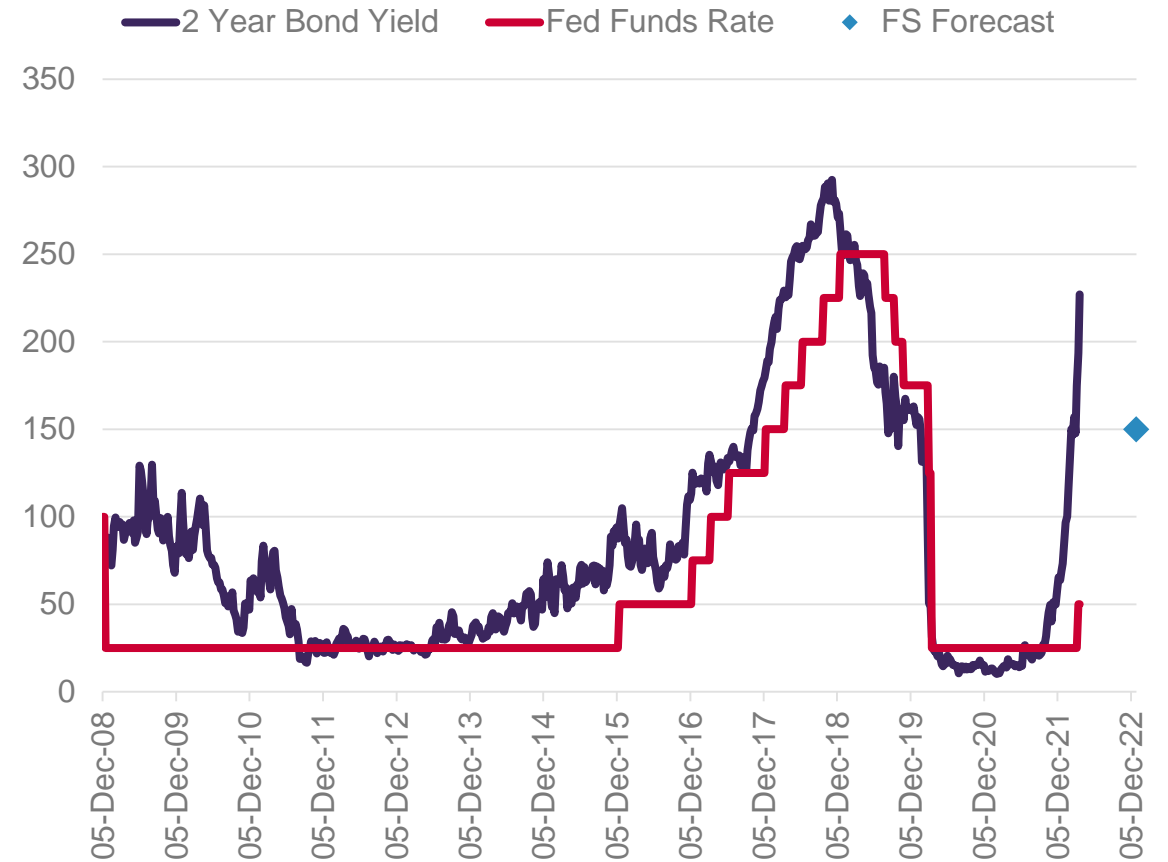
US – PMI Index & Financial Conditions



Source: Bloomberg, Fitch Solutions

## Tightening Cycle Has Begun, More Hikes Ahead

US – Fed Funds Rate & Bond Yields, %

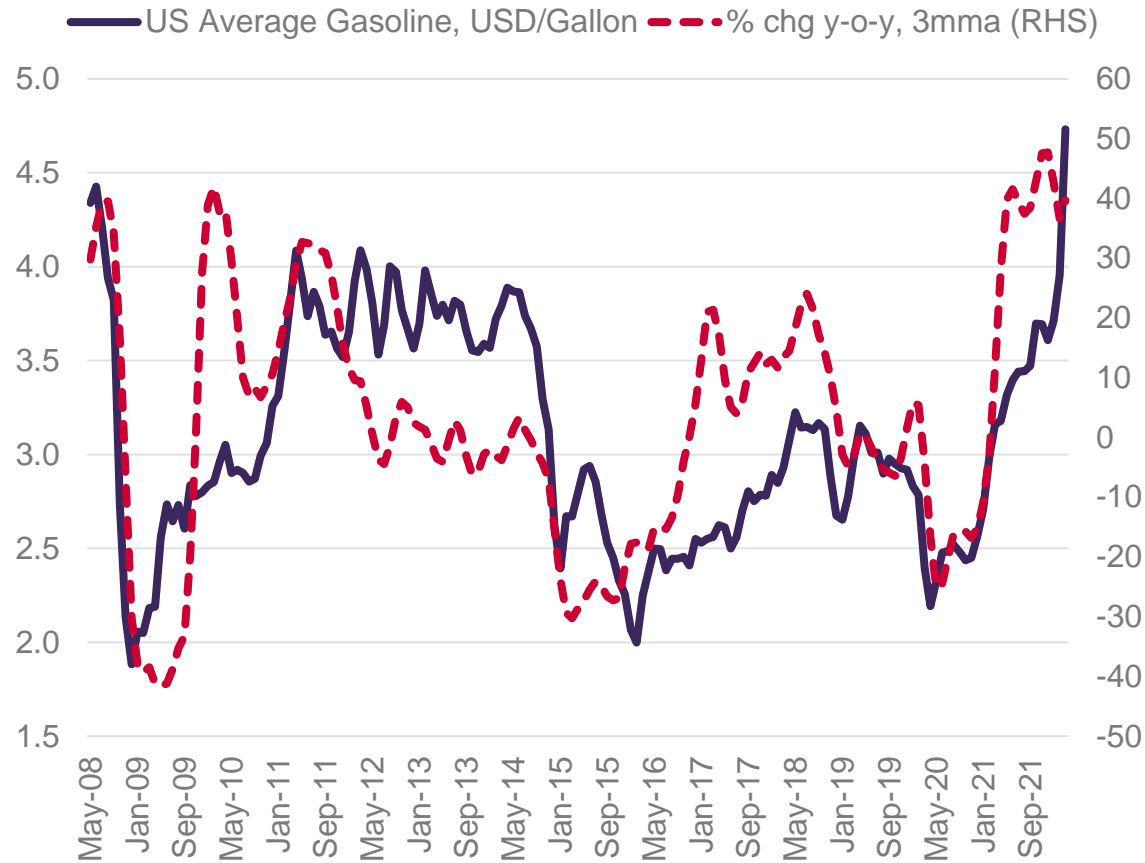


Source: Bloomberg, Fitch Solutions

# US Consumers Are Taking A Hit From Higher Energy Prices

## Gasoline Prices Will Add To Inflation

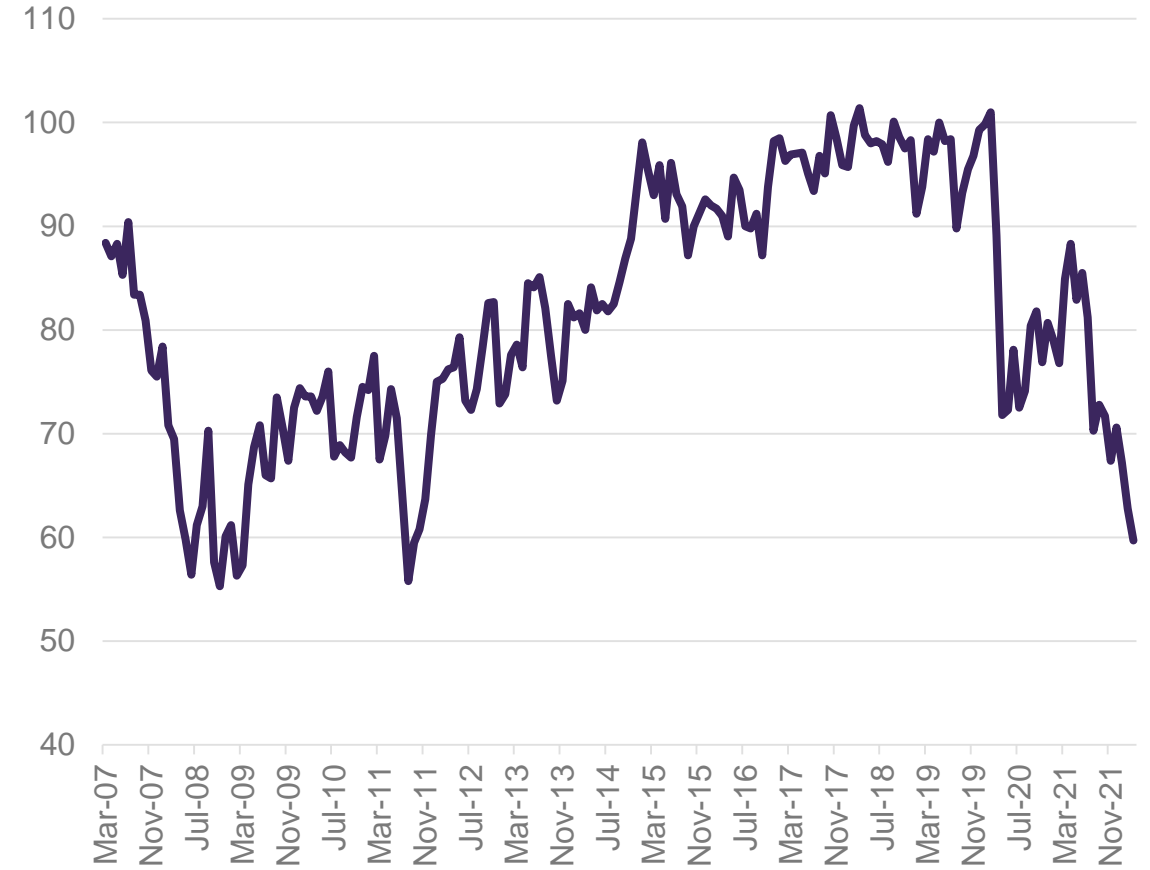
US – Gasoline Prices



Source: Bloomberg, Fitch Solutions

## Consumer Confidence Remains Low

US – University Of Michigan Consumer Sentiment Index



Source: Bloomberg, Fitch Solutions



# Europe Growth Outlook

# Four Channels Of Transmission For Europe

## Central Asia To Be Worst Hit By The War

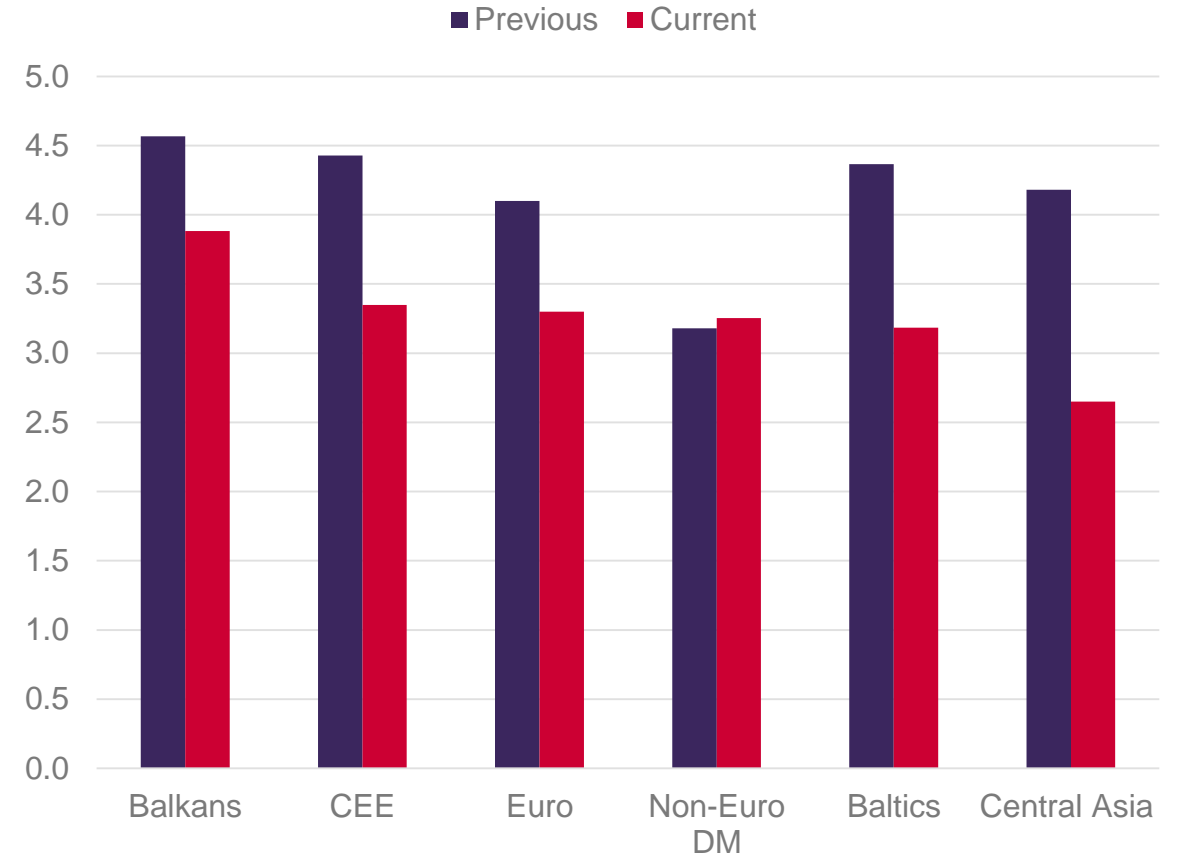
Russia Invasion Risk Matrix By Region

	Trade Exposure	Inflation Exposure	Sentiment Impact	Financial Market Exposure
<b>Eurozone</b>	Medium	High	Medium	Medium
<b>CEE</b>	Medium	High	High	Medium
<b>Central Asia</b>	High	High	High	High
<b>Baltics</b>	Medium	High	High	Medium
<b>Balkans</b>	Low	High	Medium	Medium
<b>Turkey</b>	Medium	High	Medium	Medium

Source: Fitch Solutions

## Downside Risks To Growth Remains High

Real GDP Growth, % (2022)

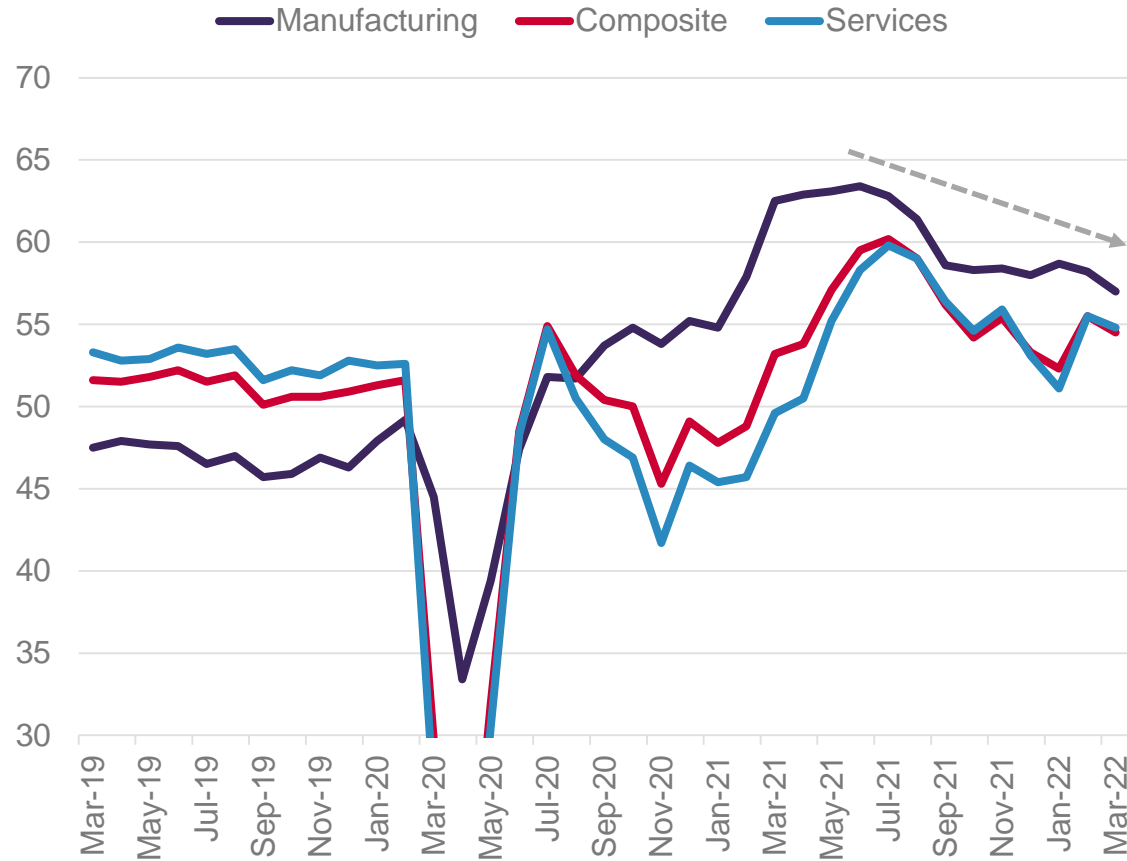


Source: National Sources, Fitch Solutions

# Eurozone Activity To Get Hit As Prices Rise And Sentiment Falls

## Eurozone PMIs Already Slowing Before Crisis

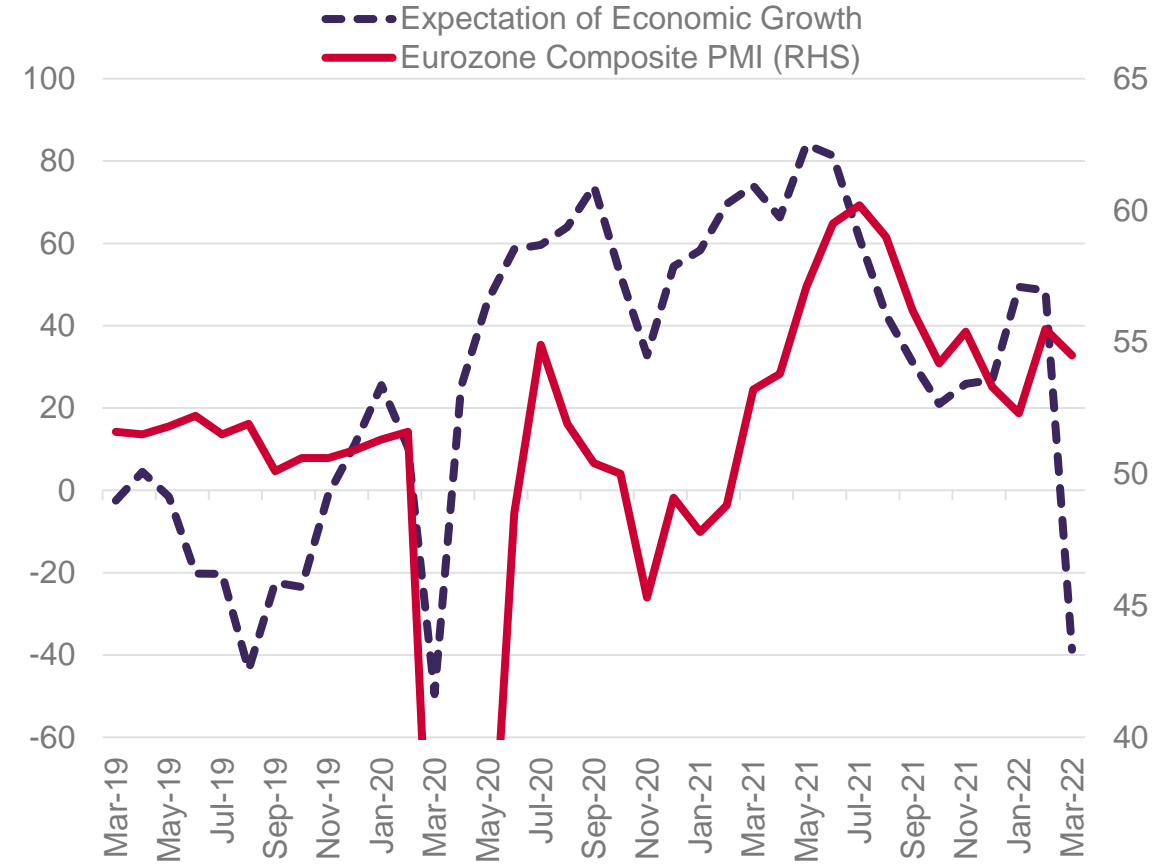
Eurozone - Markit PMI Indices



Source: Bloomberg, Fitch Solutions

## Sentiment Has Collapsed And Will Weigh On Activity

ZEW - Eurozone Expectation Of Economic Growth & Composite PMI



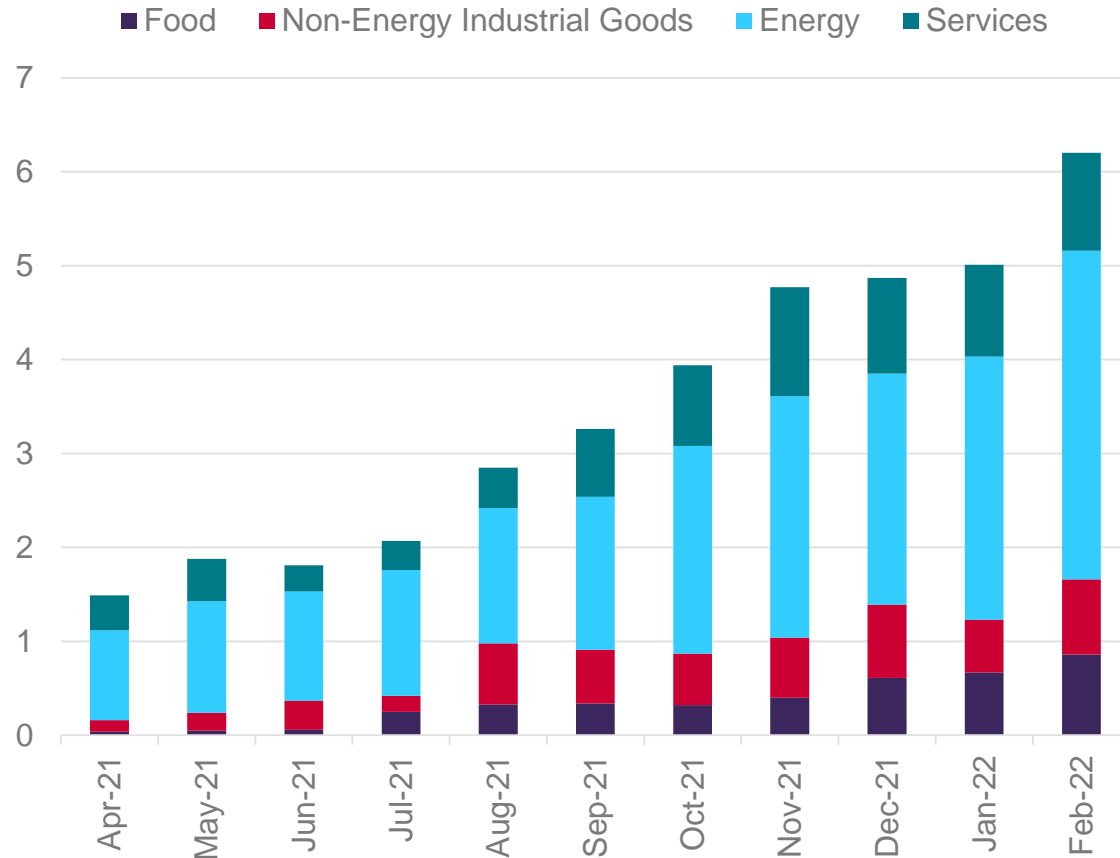
Source: Bloomberg, Fitch Solutions



# ECB To Remain Dovish, Despite Sharp Rise In Inflation

## Energy Driving Above-Target Inflation In Eurozone

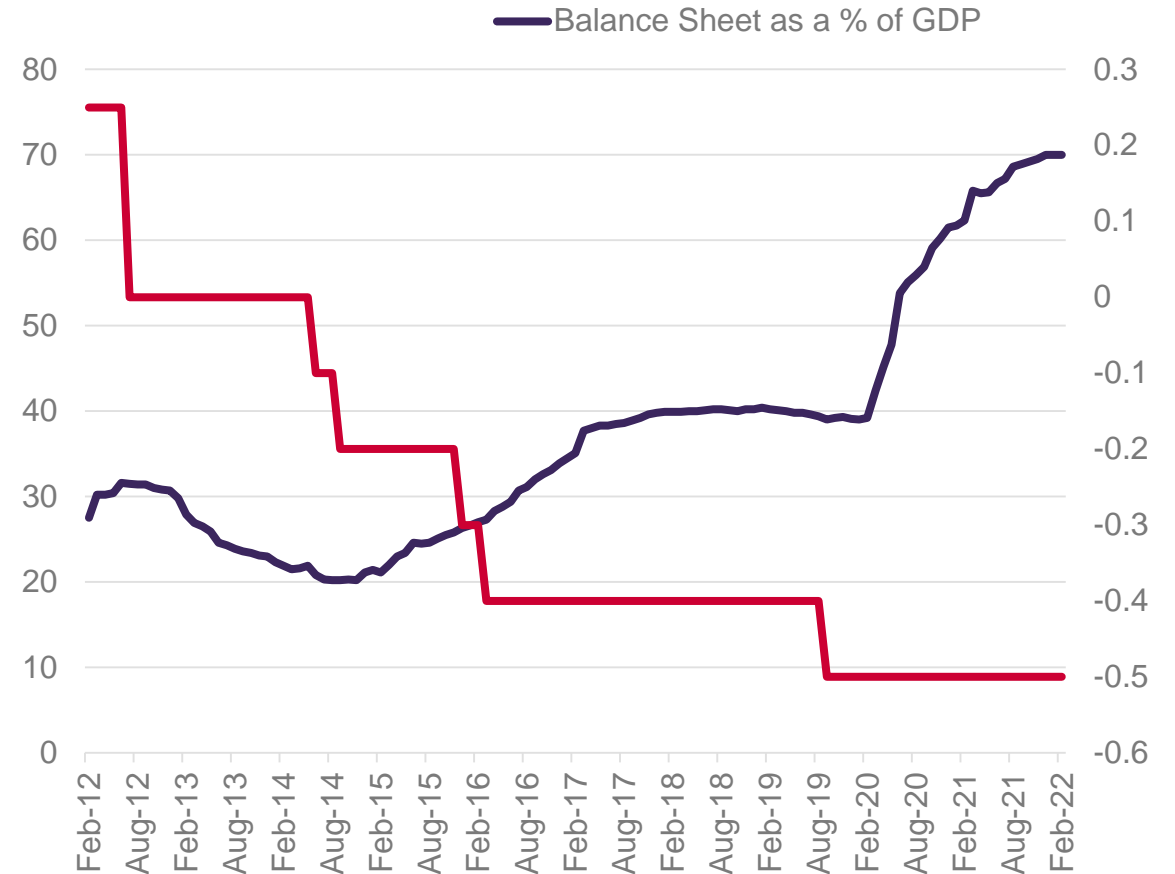
Percentage Point Contribution To Inflation, % y-o-y



Source: Bloomberg, Fitch Solutions

## Policy To Remain Easy

ECB Monetary Policy



Source: Bloomberg, Fitch Solutions

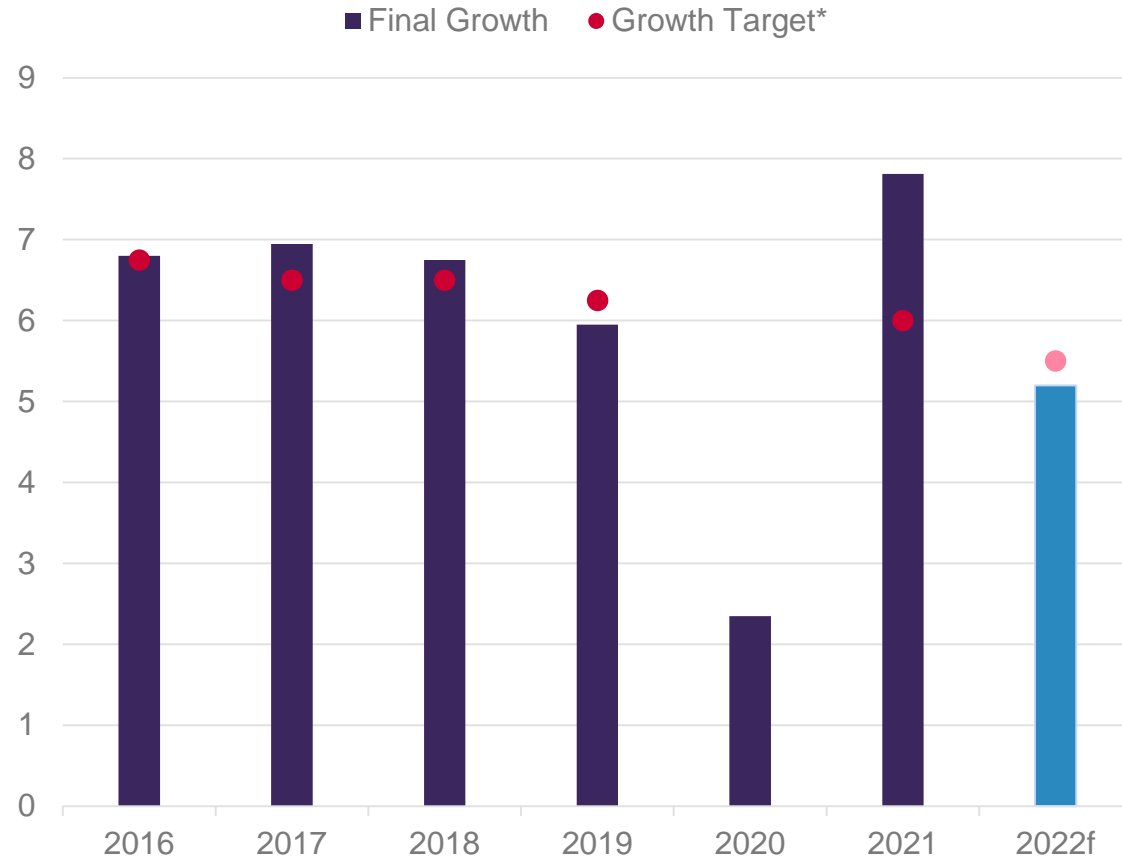


# China Growth Outlook

# Chinese Economy Facing Headwinds, But Support Is Underway

## Growth Should Come In Close To Target

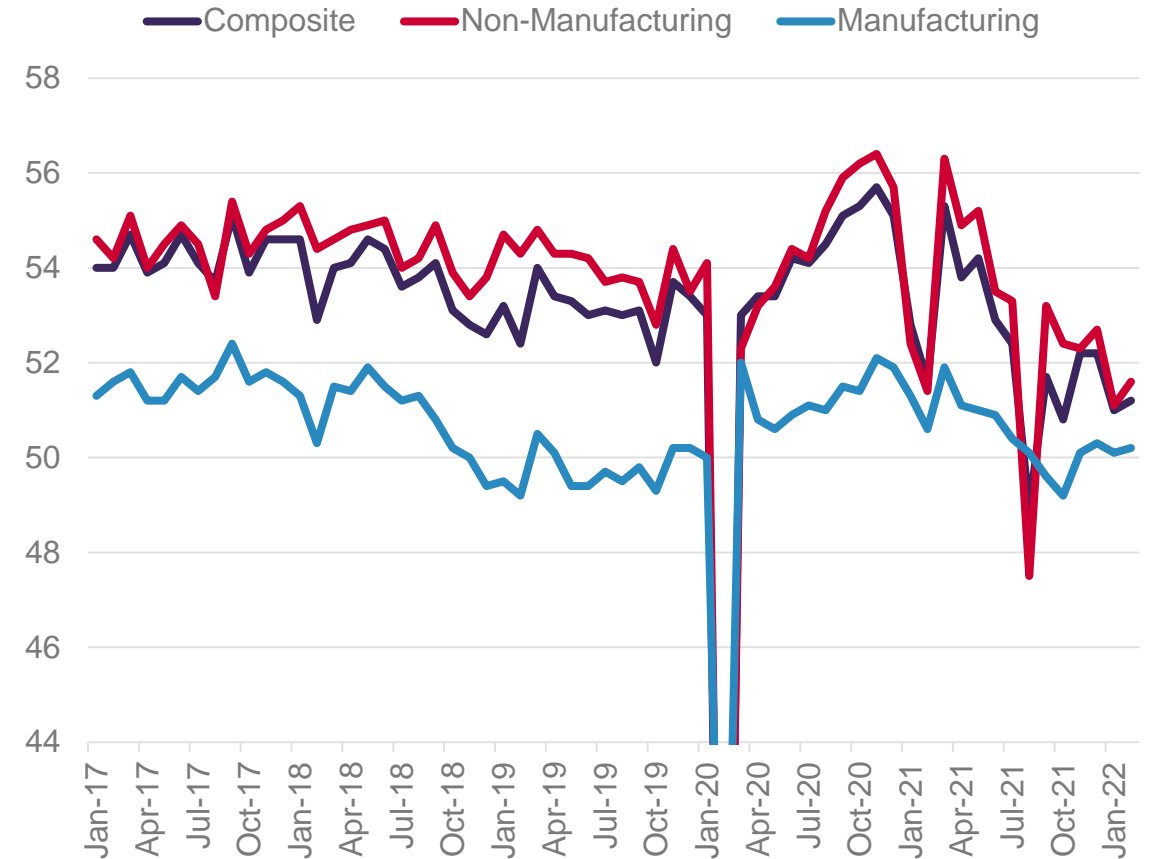
China - Real GDP Growth, %



\*Target or mid point of target range. Source: Bloomberg, Fitch Solutions

## Activity Easing As Challenges Mount

China - PMI Indices

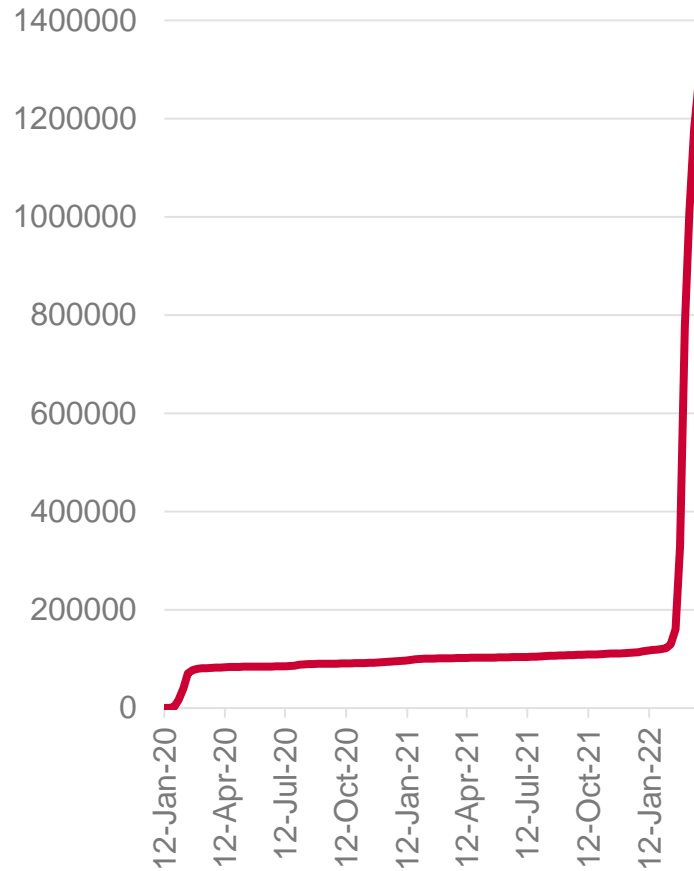


Source: Bloomberg, Fitch Solutions

# China Faces Several Challenges, Covid-19 Still One of Them

## Covid-19 Fatigue Will Set In

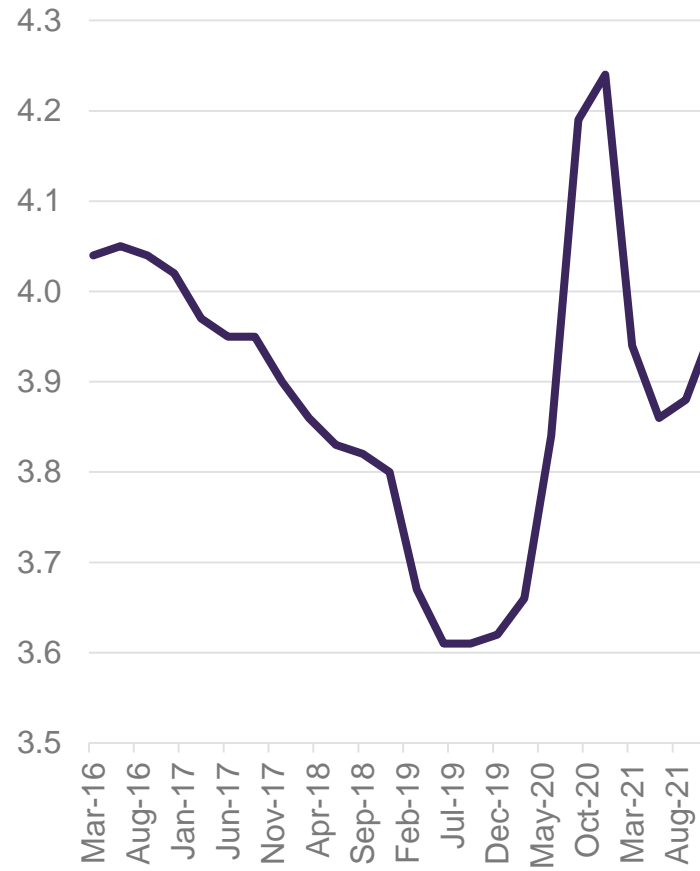
China - Confirmed Cumulative Cases



Source: Bloomberg, Fitch Solutions

## Rising Unemployment A Problem

China - Unemployment Rate, %



Source: Bloomberg, Fitch Solutions

## Financial Stresses Remain

China - Markit iBoxx USD Indices

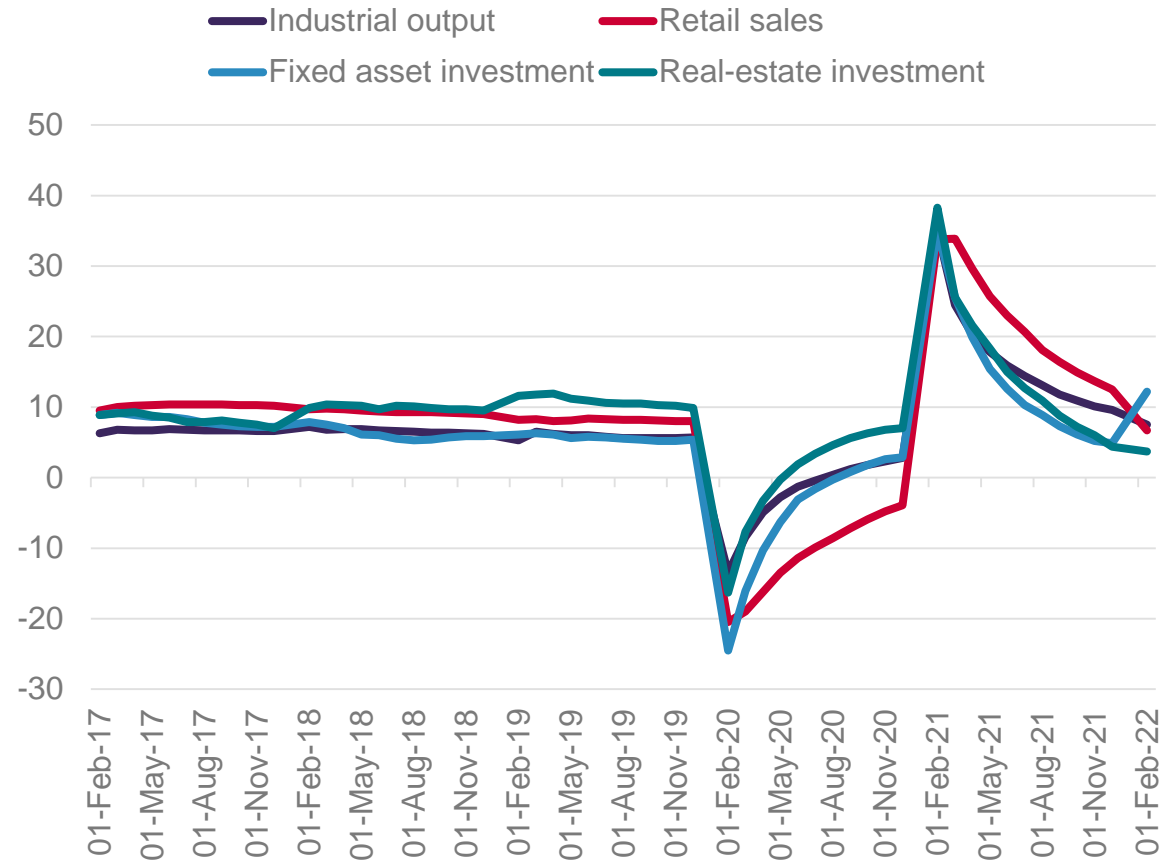


Source: Bloomberg, Fitch Solutions

# Beijing Relying On Old Tricks To Support Growth

## One Sector Is Bucking The Slowdown

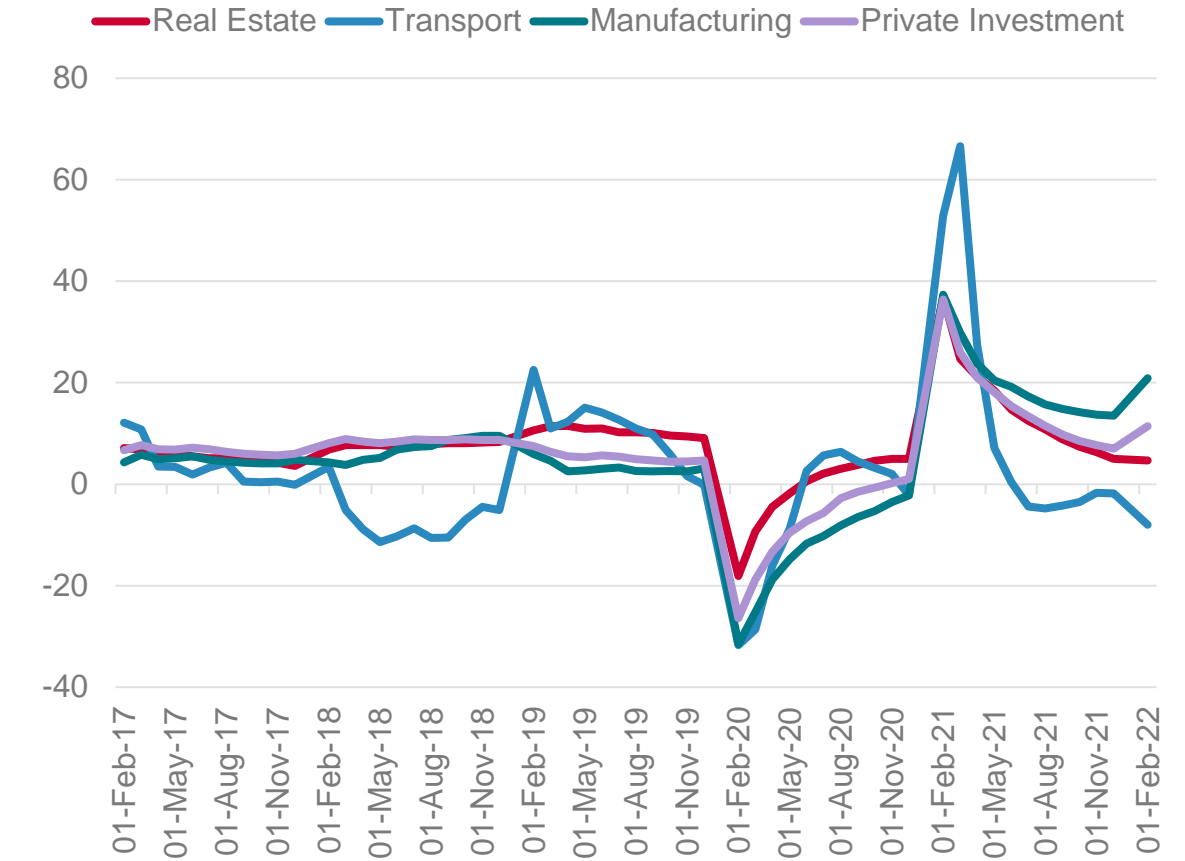
China - Cumulative Growth, % y-o-y



Source: Bloomberg, Fitch Solutions

## Manufacturing And Private Infrastructure Investment Rising

China - Fixed Asset Investment, Cumulative Growth, % y-o-y



Source: Bloomberg, Fitch Solutions



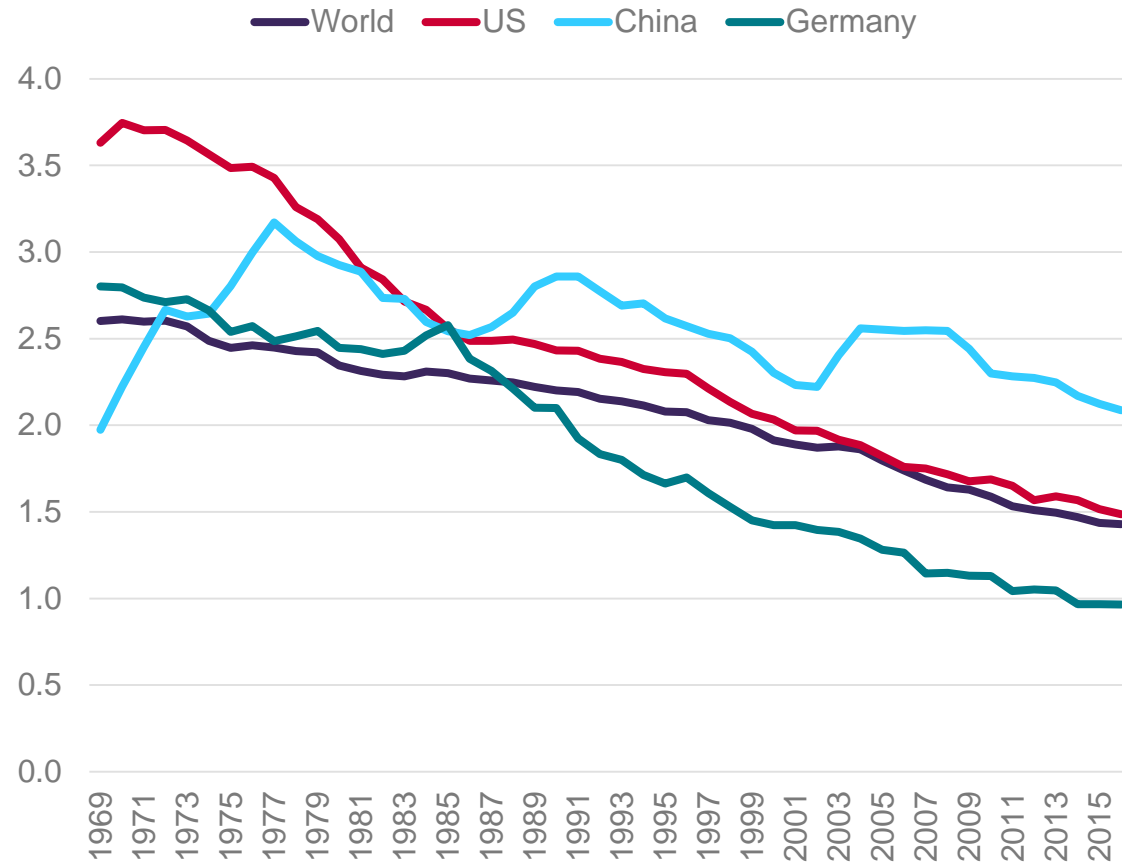


# Risks To Watch

# Stagflation Risks: The 1970s Comparison Might Be Overdone

## Energy Efficiency Has Improved Substantially

Energy Consumption Per GDP, kWh per USD



Source: Our World In Data, Fitch Solutions

## 1970s Stagflation Comparison Might Be Overdone

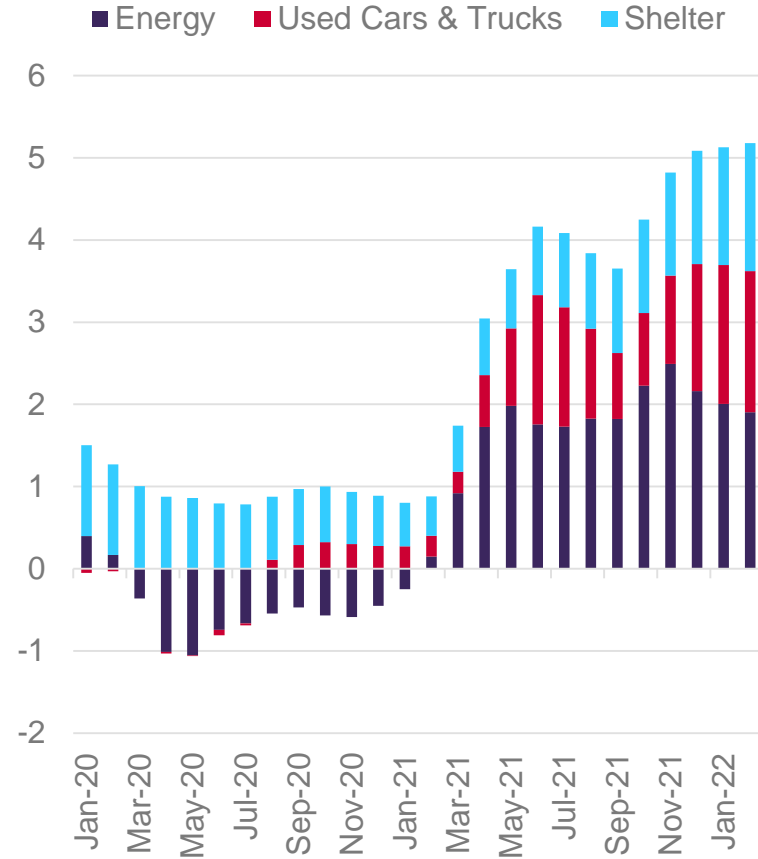
Area	1940s	1970s	2022
Supply & Demand Imbalance	Yes	Mostly Supply	Yes
Abnormally Elevated Savings Rates?	Yes	No	Yes
Relatively Contained Inflation Expectations?	NA	No	Yes
Sharp Increase & Decline In Money Supply?	Yes	No	Yes
Inflation Fears Accelerating Consumption Intentions?	NA	Yes	No

Source: Guggenheim, Fitch Solutions

# Potential For A 'Policy Mistake'

## Inflation Driven By A Few Categories

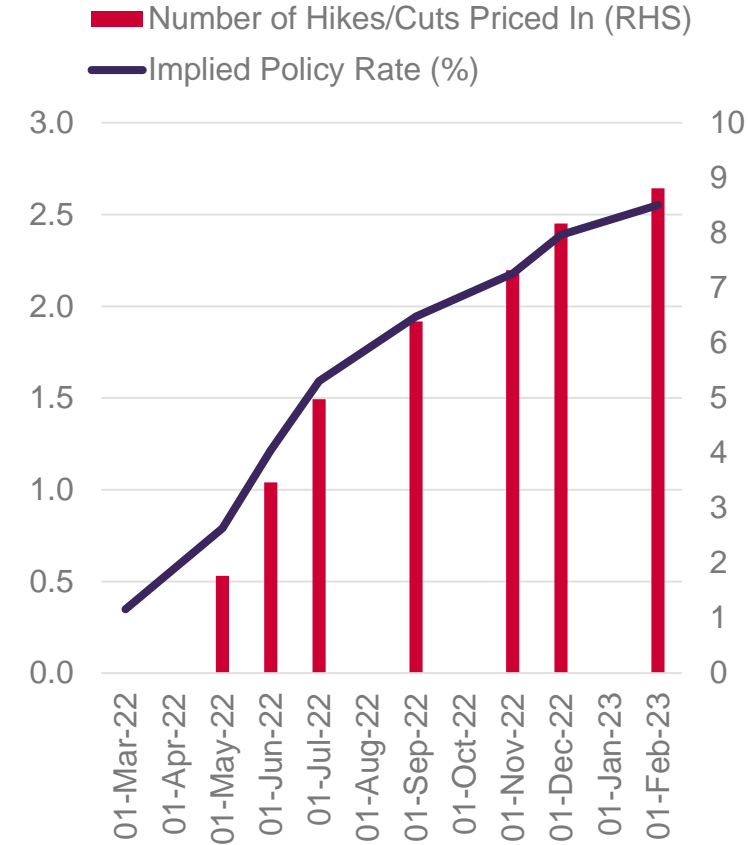
US - Contribution To Inflation, pp



Source: Bloomberg, Fitch Solutions

## Interest Rates Could Surprise

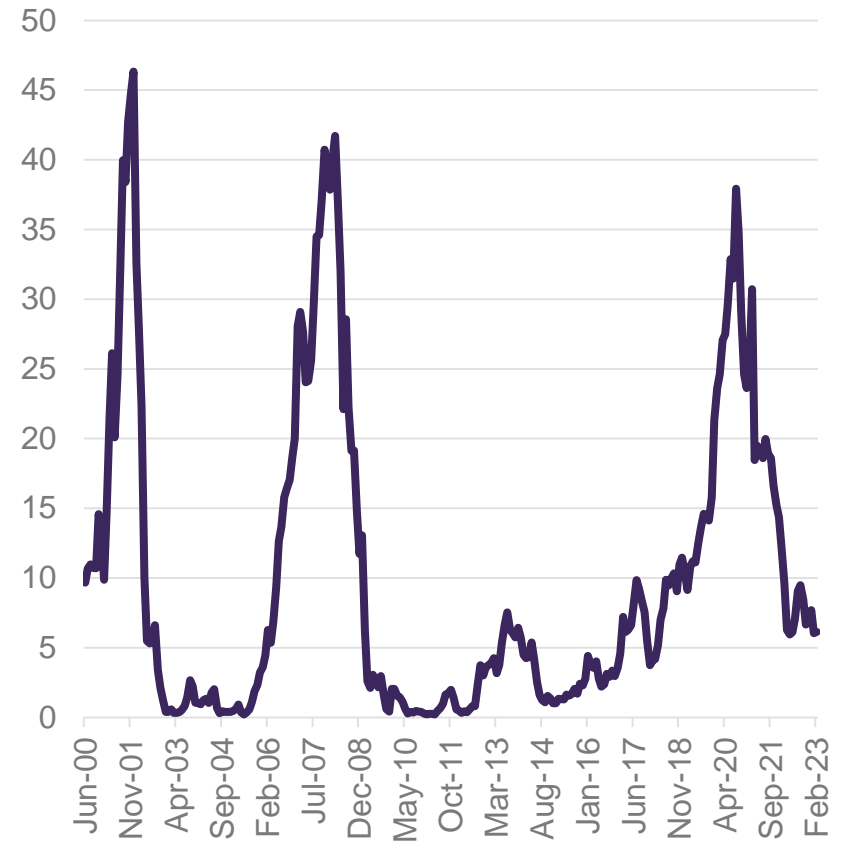
Market-Based Path of US Rate Hikes



Source: Bloomberg, Fitch Solutions

## Recession Risk To Rise?

NY Fed Probability Of Recession In US 12 Months Ahead\*

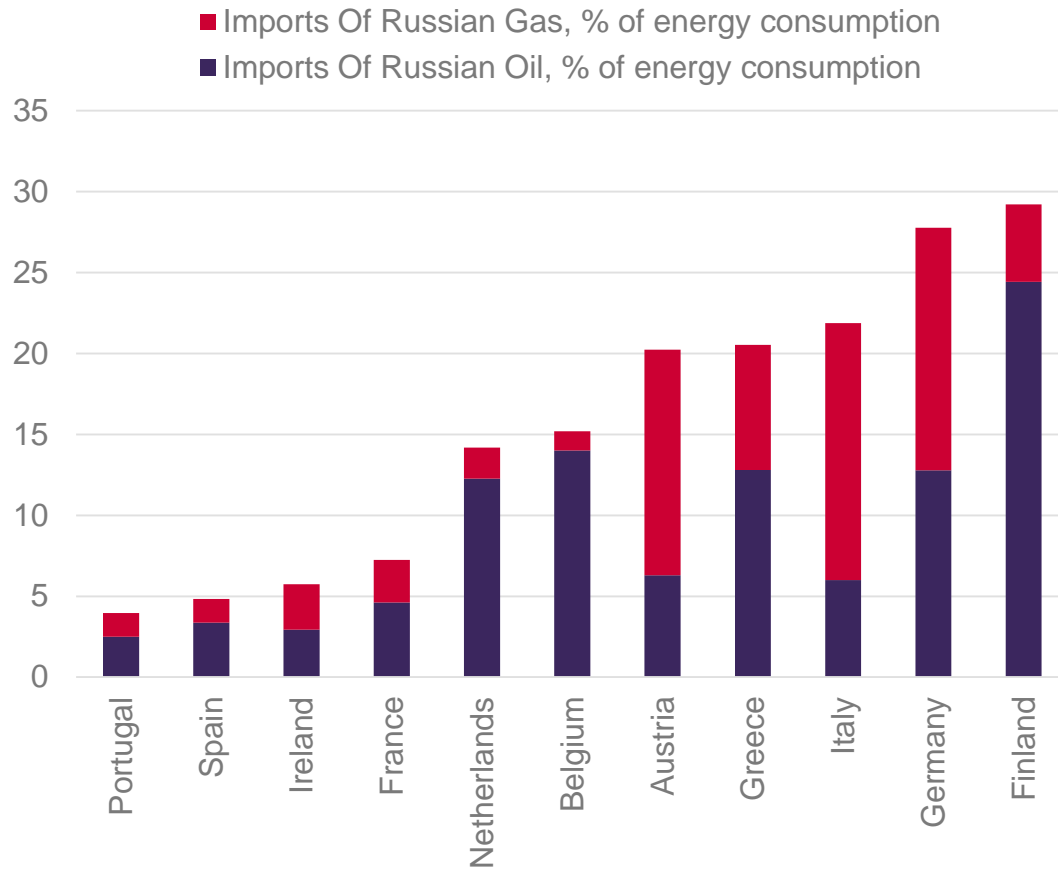


\*Predicted by Treasury Spread: Bloomberg, Fitch Solutions

# Europe Depends On Energy Flows, Sanctions On China Would Hurt

## Europe Is Highly Dependent On Russia

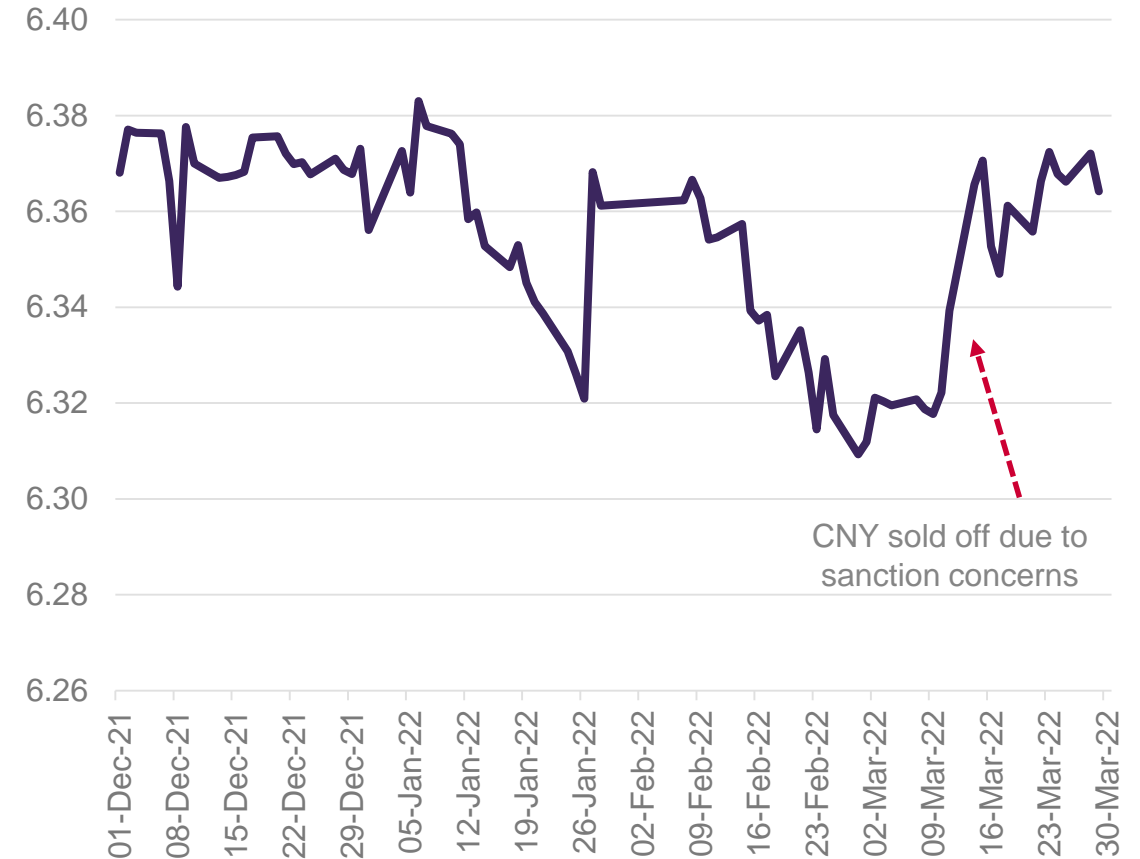
Imports of Energy, % of total consumption



Source: Trademap, Our World In Data, Fitch Solutions

## Sanctions On China Would Hurt

Exchange Rate, CNY/USD



Source: Fitch Solutions

# Busy Election Calendar, But Broad Policy Continuity

## Key Elections

Country	Event	Date	Continuity Of Govt/Party?	Policy Implications
France	Election (Presidential)	10 & 24 April 2022	Yes	Policy continuity
Hungary	Election (Legislative)	3 April 2022	Yes	Policy continuity
Philippines	Election (Presidential & Legislative)	9 May 2022	Yes	Policy continuity
Australia	Election (Legislative)	By 21 May 2022	Too uncertain	Too uncertain
Colombia	Election (Presidential)	29 May & 19 June 2022	No	Too uncertain
France	Election (Legislative)	12 & 19 June 2022	Yes	Policy continuity
Japan	Election (Legislative - Upper House)	July 2022	Yes	Policy continuity
Kenya	Election (Presidential & Legislative)	9 August 2022	No	Policy continuity
Brazil	Election (Presidential & Legislative)	2 & 30 October 2022	No	Centre-left policy shift
China	CPC Party Congress	H222	Yes	Policy continuity
US	Election (Legislative - Mid-Term)	8 November 2022	Yes	Policy disruption
South Africa	ANC Party Conference	16-20 December 2022	Yes	Policy continuity

Source: Fitch Solutions





## Q&A



# RUSSIA-UKRAINE CRISIS

The Russia-Ukraine crisis remains fast-moving, both in terms of the situation on the ground and the market implications.

Explore our latest research on the impact of the Russia-Ukraine crisis on industries and economies.

[www.fitchsolutions.com/topic/russia-ukraine-crisis](https://www.fitchsolutions.com/topic/russia-ukraine-crisis)





FitchSolutions

# Country Risk & Industry Research

Make clear-sighted business decisions and understand the opportunities and risks in markets where reliable information is hard to find and even harder to interpret.

Find out more at [fitchsolutions.com/products/country-risk-and-industry-research](https://fitchsolutions.com/products/country-risk-and-industry-research)

# Learn More

Fitch Solutions helps clients to excel at managing their credit risk, gain deeper insights into the debt and fixed income markets, and get comprehensive intelligence about the macroeconomic environment.

Powered by Fitch Connect, our Country Risk & Industry Research expertise helps you make clear-sighted business decisions and understand the opportunities and risks across global markets.

To find out more, please contact your Account Manager or a member of our Client Services Team.

## New York

T +1 212 908 0800

[usaclientservices@fitchsolutions.com](mailto:usaclientservices@fitchsolutions.com)

## London

T +44 (0)20 3530 2400

[emeaclientservices@fitchsolutions.com](mailto:emeaclientservices@fitchsolutions.com)

## Hong Kong

T +852 2263 9999

[asiaclient.services@fitchsolutions.com](mailto:asiaclient.services@fitchsolutions.com)

## Tokyo

T +81 3 3288 2715

[asiaclient.services@fitchsolutions.com](mailto:asiaclient.services@fitchsolutions.com)

## Singapore

T +65 6796 7231

[asiaclient.services@fitchsolutions.com](mailto:asiaclient.services@fitchsolutions.com)



[fitchsolutions.com](https://www.fitchsolutions.com)

New York  
33 Whitehall Street  
New York, NY  
10004

London  
30 North Colonnade  
Canary Wharf  
London, E14 5GN