

Economic Situation and Strategy

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IMF: A soft landing is possible

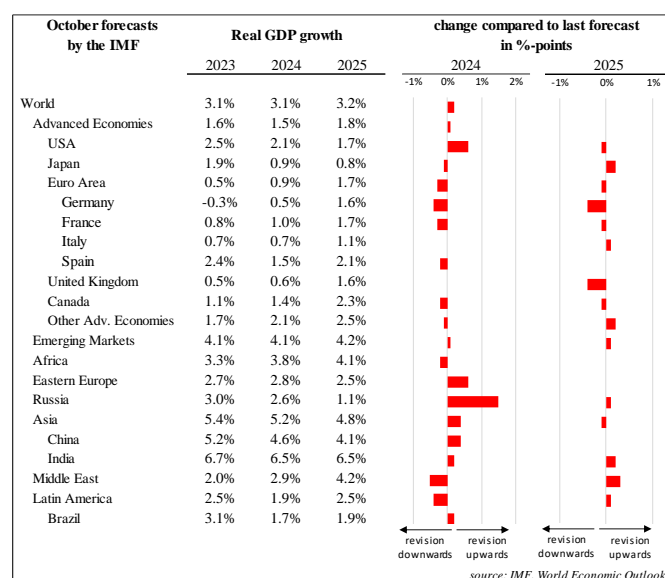
Just in time for the start of the year, the International Monetary Fund (IMF) has updated its economic outlook and published its most recent forecasts. Even though there were no major surprises, the adjustments and in particular the new wording are worth a look. In contrast to the previous economic outlook, the risks to global growth are now considered balanced and no longer tilted to the downside. In October, for example, the IMF had still predicted a stony path to economic recovery, warning of a slow decline in inflation and a weak economic momentum in emerging and developing countries. What has now prompted the IMF to adopt a more optimistic outlook? In particular, the ongoing disinflation (decline of the inflation rate) and the more robust development of many economies have led the IMF to view a soft landing of the economy (our base scenario) as a possible scenario for the first time. In this issue of Economic Situation and Strategy, you will find out what the forecast adjustments look like, which economic picture current leading indicators present and which areas of action the IMF defines for decision-makers in 2024.

What do the forecasts look like in detail?

There have been only minor adjustments to the global growth forecasts. Although the IMF continues to expect below-average economic growth in 2024, it has revised its forecast upwards by 0.2 percentage points to 3.1 percent. This would leave economic growth below the historical average of 3.8 percent (2000 to 2019).

At the regional level, the IMF has made a significant upward revision of 0.6 percentage points for the USA, to 2.1 percent for 2024 (M.M.Warburg: 2.0 percent). How-

ever, the adjustments mainly reflect statistical effects resulting from the unexpectedly strong growth in the second half of 2023. An opposing economic trend can be observed in the Eurozone, where the IMF has revised its growth forecast downwards accordingly. With expected growth of 0.9 percent, the Eurozone causes a drag to the global economy this year (M.M.Warburg: 1.0 percent). The growth forecast for Germany is particularly weak at 0.5 percent (M.M.Warburg: 0.8 percent).



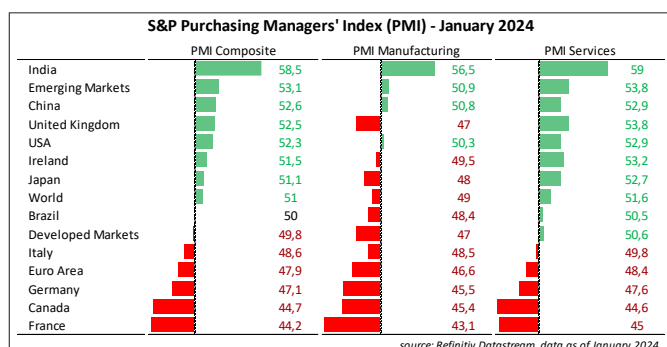
Among the emerging and developing countries, the upward revisions for the Asian region stand out in particular. These are especially due to the more optimistic outlook for China (2024: 4.6 percent; +0.4 percentage points compared to the last forecast). Economists attribute the upward revision of China's economic growth to the better-than-expected economic development in 2023 as well as higher government spending. However, India remains the growth engine this year with a forecast growth rate of 6.5 percent. In line with previous economic outlooks, the

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IMF has raised its GDP forecast for Russia to 2.6 percent in 2024 (+1.5 percentage points compared to the last forecast) based on high military expenses as well as robust consumer spending.

Purchasing managers' indices underpin IMF forecasts

The IMF's economic outlook is supported by the current development of the purchasing managers' indices. In regional terms, it is immediately apparent that companies surveyed in the Eurozone are particularly pessimistic about the future. The purchasing managers' index has already been in recession for the past six months. A weak overall demand environment, as reflected in declining incoming orders, a continuing restraint in spending by end consumers, as well as weak new export business, continues to have a negative impact. A new challenge is added by increased delivery times for primary products, due to attacks by Houthi rebels on cargo ships in the Red Sea.



In contrast, businesses in the emerging markets, especially in India, seem to have a much more optimistic economic outlook. In the US, too, overall confidence among company representatives has improved, following the recent publication of strong economic data. Looking at the different sectors, the existing divergence between a weak industrial sector and a relatively strong service sector has persisted. However, the gap between the sectors has narrowed in some economies, which can be attributed to a

less pessimistic mood in industry and a simultaneously more negative mood in the service sector.

What's important in 2024?

For the coming years, the IMF has defined four key areas of action for policymakers. First of these is the fight against inflation. With an expected global inflation rate of 5.8 percent this year, inflation is still deemed too high. However, the rate of inflation is approaching the central banks' target value (2.6 percent), particularly in the developed countries, while the rate of price increases in the emerging countries remains at a higher level of 8.1 percent. At the sectoral level, it is interesting to note that while purchase prices in the industrial sector continue to fall and thus dampen inflation, cost pressure remains high in the service sector due to persistent wage demands. Further risks factors with regards to a higher inflation rate and thus an extension of restrictive monetary policy derive from a renewed rise in commodity prices as a result of geopolitical shocks, supply disruptions and extreme weather events (e.g. El Niño).

Secondly, the focus is on budget consolidation in order to restore the sustainability of public finances regarding future economic shocks. In this context and as a third recommendation, the IMF calls for targeted and coordinated structural reforms to strengthen productivity growth and debt sustainability. Fourthly, it is considered necessary to strengthen economic resilience by intensifying multilateral cooperation. The aim of increased cooperation is, for example, to mitigate the effects of climate change and to facilitate the transition to green energy. However, securing the transport of critical products and resolving trade disputes also requires closer cooperation at international level.

Simon Landt

Market data

	As of 02.02.2024 07:32	26.01.2024 -1 week	01.01.2024 -1 month	Change versus 01.11.2023 -3 months	01.02.2023 -1 year	29.12.2023 YTD
Stock markets						
Dow Jones	38520	1,1%	2,2%	15,8%	13,0%	2,2%
S&P 500	4955	1,3%	3,9%	16,9%	20,3%	3,9%
Nasdaq	15362	-0,6%	2,3%	17,6%	30,0%	2,3%
DAX	16859	-0,6%	0,6%	13,0%	11,1%	0,6%
MDAX	25903	-1,0%	-4,5%	7,7%	-10,2%	-4,5%
TecDAX	3353	-0,2%	0,5%	17,2%	5,0%	0,5%
EuroStoxx 50	4639	0,1%	2,6%	13,4%	11,2%	2,6%
Stoxx 50	4204	0,2%	2,7%	9,4%	9,6%	2,7%
SMI (Swiss Market Index)	11214	-1,5%	0,7%	6,8%	0,1%	0,7%
Nikkei 225	36158	1,1%	8,0%	14,4%	32,2%	8,0%
Brasilien BOVESPA	128481	-0,4%	-4,3%	11,7%	14,6%	-4,3%
Russland RTS	1125	1,3%	3,8%	3,3%	12,2%	3,8%
Indien BSE 30	72975	3,2%	1,0%	14,8%	22,2%	1,0%
China CSI 300	3148	-5,6%	-8,3%	-11,9%	-25,0%	-8,3%
MSCI Welt	3227	0,3%	1,8%	15,3%	14,8%	1,8%
MSCI Emerging Markets	982	-0,3%	-4,2%	7,2%	-5,8%	-4,1%
Bond markets						
Bund-Future	136,25	196	-97	680	-50	-97
Bobl-Future	118,32	59	-96	179	115	-96
Schatz-Future	106,06	9	-49	82	38	-49
3 Monats Euribor	3,91	0	2	1	142	2
3M Euribor Future, Dec 2024	2,44	-9	14	-62	-33	14
3 Monats \$ Libor	5,58	0	-2	-8	78	-2
Fed Funds Future, Dec 2024	3,97	-12	14	-63	101	14
10 year US Treasuries	3,88	-27	1	-88	48	1
10 year Bunds	2,16	-11	13	-56	-10	16
10 year JGB	0,67	-2	4	-29	19	4
10 year Swiss Government	0,82	-8	12	-31	-44	12
US Treas 10Y Performance	603,43	2,4%	0,4%	8,4%	-0,3%	0,4%
Bund 10Y Performance	562,91	1,4%	-0,4%	5,9%	4,2%	-0,4%
REX Performance Index	445,01	0,3%	-0,6%	2,8%	2,5%	-0,6%
IBOXX AA, €	3,15	-13	8	-75	-22	8
IBOXX BBB, €	3,78	-14	3	-97	-47	3
ML US High Yield	7,89	-2	10	-153	-25	10
Commodities						
MG Base Metal Index	383,34	-0,7%	-1,9%	2,2%	-15,3%	-1,9%
Crude oil Brent	78,84	-3,8%	1,5%	-7,3%	-4,9%	1,5%
Gold	2055,11	1,9%	-0,5%	3,5%	6,5%	-0,5%
Silver	23,13	1,4%	-4,6%	0,0%	-1,7%	-4,6%
Aluminium	2208,00	-1,4%	-5,9%	-0,4%	-15,0%	-5,9%
Copper	8425,50	-0,3%	-0,5%	4,9%	-7,0%	-0,5%
Iron ore	132,67	-2,1%	-2,7%	8,5%	5,0%	-2,7%
Freight rates Baltic Dry Index	1388	-8,6%	-33,7%	-0,9%	107,8%	-33,7%
Currencies						
EUR/ USD	1,0878	0,1%	-1,6%	3,2%	-0,1%	-1,6%
EUR/ GBP	0,8530	-0,1%	-1,6%	-1,9%	-3,7%	-1,6%
EUR/ JPY	159,26	-0,8%	1,9%	0,0%	12,7%	1,9%
EUR/ CHF	0,9324	-0,8%	0,7%	-2,6%	-6,6%	0,7%
USD/ CNY	7,1798	0,0%	1,0%	-1,9%	6,4%	1,1%
USD/ JPY	146,44	-1,2%	3,9%	-3,0%	13,6%	3,8%
USD/ GBP	0,78	-0,2%	0,0%	-4,9%	-3,3%	0,0%

Source: Refinitiv Datastream

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