

WORLD ECONOMIC OUTLOOK

WORLD FINANCIAL MARKETS - WORLD FINANCIAL STATE - TAIWAN - CHINA - WAR IN UKRAINE

HUGHES ECONOMICS (HE) – April 2023

The current review below calculates probabilities for Financial Markets outcomes, the situation over Taiwan, the possibility of another depression, China’s direction in world affairs and the war in Ukraine. All papers as below are available on this website as are various spreadsheets in **xlsx** format. Calculations below use the **WEOapril.xlsx** spreadsheet and the **LoHiProbs.xlsx** methodology.

Probability calculations below for the scenarios outlined are explained in **Structuring Probability Assessments** available at <https://doi.org/10.17265/1537-1506/2020.05.003>. Also **Thinking Probabilistically** available at <https://doi.org/10.17265/1537-1506/2021.05.002>, **Thinking Probabilistically Revisited** available at <https://doi.org/10.17265/1537-1506/2022.01.001>, **A New Approach to Probability Assessment** available at <https://doi.org/10.17265/1537-1506/2022.01.003> and **Probability Assessment** available at <https://doi.org/10.17265/2328-2185/2022.05.006>. A summary article **Assessing Probabilities With Minimal Calculations** can be downloaded from this website.

WORLD FINANCIAL MARKETS (WFM)

As stated previously, three possible scenarios are proposed for the next 6 months as listed below in order of increasing likelihood:

- **TINA**: There is no alternative, and the Dow rises significantly to 40,000+.
- **SQ**: Status Quo, no major moves for the Dow in the range 30,000 – 35,000. Current Dow is around 32,000
- **BB**: Bubble bursts and Dow corrects to significantly below 30,000 or a 10%+ correction from current levels.

PROBABILITIES ON WORLD FINANCIAL MARKETS FOR THE NEXT 6 MONTHS

Scenarios		Pairwise Range		Probabilities					More Likely Values (Average)
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	
TINA	Base = 1	1.00	1.00	0.020	0.014	0.017	2	3	Base = 1
SQ	SQ/TINA	10.00	12.00	0.196	0.164	0.180	18	28	10.59
BB	BB/SQ	4.00	5.00	0.784	0.822	0.803	80	69	4.46
				1.000	1.000	1.000	100	100	

BB now looks highly likely in light of **WFS** changes below.

WORLD FINANCIAL STATE (WFS)

Scenarios in order of increasing likelihood are as follows:

- **MB** or Mild Boom: Revamping of world infrastructure sees markets rise for 10%+ gains.
- **D** or Depression: High inflation and continued COVID pressures, policy mistakes and global financial collapse.
- **SQ** or Status Quo: Stalemate in Ukraine, inflation cools, labour markets remain healthy.
- **MR** or Mild Recession: World activity falls, with problems from inflation, Ukraine, ESG factors & more costly supply chains.

PROBABILITIES ON THE WORLD FINANCIAL STATE FOR THE NEXT 6 MONTHS

Scenarios		Pairwise Range		Probabilities					More Likely Values (Average)
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	
MB	Base = 1	1.00	1.00	0.008	0.004	0.006	1	1	Base = 1
D	D/MB	10.00	12.00	0.076	0.045	0.061	6	5	10.17
SQ	SQ/D	2.00	3.00	0.153	0.136	0.144	14	17	2.36
MR	MR/SQ	5.00	6.00	0.763	0.815	0.789	79	77	5.48
				1.000	1.000	1.000	100	100	

The **WFS** has been rocked by recent upheavals in the world banking system. Just how far repercussions reverberate remains to be seen. That world monetary policy has just been further complicated is in no doubt. The Federal Funds rate was raised 0.25% in the March meeting of the FOMC. Powell’s comments steadied markets somewhat, although the Dow dropped 530 points to 32,030 that day. Bank failures do not seem imminent at this point. The chances of world recession/depression rise again from an already high level to 85%. **HE** hopes that world monetary authorities never again experiment with negative interest rates.

TAIWAN

The scenarios for developments involving Taiwan from least to most likely are as follows:

- **TINO**: Taiwan invasion by mainland China with no aid from any country to help repel the invaders.
- **TIUS**: Taiwan invasion by mainland China and the US assists Taiwan in its defense, possibly with other allies.
- **NOTI**: No invasion of Taiwan but Chinese harassment of Taiwan continues.

PROBABILITIES ON TAIWAN DEVELOPMENTS OVER THE NEAR FUTURE (No Changes)

Scenarios		Pairwise Range		Probabilities					More Likely Values (Average)
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	
TINO	Base = 1	1.00	1.00	0.038	0.020	0.029	3	5	Base = 1
TIUS	TIUS/TINO	5.00	7.00	0.192	0.140	0.166	17	21	5.72
NOTI	NOTI/TIUS	4.00	6.00	0.769	0.840	0.805	80	74	4.85
				0.999	1.000	1.000	100	100	

CHINA'S FUTURE DIRECTION

Outcomes in increasing order of likelihood are as follows:

- **RDA**: Regionally decentralized authoritarianism – initially orchestrated by Deng Xiaoping leading to China's rapid rise.
- **RD?**: Some hybrid model incorporating aspects of RDA and avoiding the worst excesses of RDT which follows.
- **RDT**: Regionally decentralized totalitarianism – a Soviet-style economic system - no freedom in regional decision-making.

Under RDA, regions were allowed to make their own economic decisions and this competition between them advanced the Chinese economy significantly, but with some Western market characteristics. It would seem that the CPC will tolerate economic underperformance with **RDT** for some years before deciding a change in tack is required. Current CPC rhetoric suggests no accommodation of interests other than Chinese will be entertained under Chinese hegemony. The West must maintain world leadership in key areas in the future and help persuade China that cooperation is better than confrontation.

PROBABILITIES ON POSSIBLE CHINESE DEVELOPMENTS

Scenarios		Pairwise Range		Probabilities					More Likely Values (Average)
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	
RDA	Base = 1	1.00	1.00	0.036	0.024	0.030	3	3	Base = 1
RD?	RD?/RDA	3.00	4.00	0.107	0.098	0.102	10	12	3.40
RDT	RDT/RD?	8.00	9.00	0.857	0.878	0.868	87	85	8.51
				1.000	1.000	1.000	100		

THE WAR IN UKRAINE

The scenarios following are in line with *The Economist's* appraisals in a recent publication. In order of likelihood these are:

- **CRT**: A ceasefire is negotiated but on terms dictated by Russia.
- **CUT**: As for **CRT** but with Ukraine dictating the terms.
- **STM**: A stalemate cements itself with battlelines little changed from those currently operational.

PROBABILITIES ON POSSIBLE OUTCOMES TO THE WAR IN UKRAINE (No Changes)

Scenarios		Pairwise Range		Probabilities					More Likely Values (Average)
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	
CRT	Base = 1	1.00	1.00	0.063	0.040	0.051	5	7	Base = 1
CUT	CUT/CRT	3.00	4.00	0.188	0.160	0.174	17	17	3.41
STM	STM/CUT	4.00	5.00	0.750	0.800	0.775	78	76	4.45
				1.001	1.000	1.000	100	100	

HE has formed the judgment that the West led by the US is determined that Putin will not win and will stay the course to ensure independence for Ukraine. Ukraine becomes a NATO country in all but name, but with the US calling the shots. Sweden and Finland will also become NATO members. It will take time before the Ukraine war winds down, but only bad news lies ahead for Russia.