

WORLD ECONOMIC OUTLOOK

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

HUGHES ECONOMICS (HE) – July 2023

The current review below calculates probabilities for Financial Markets outcomes, the situation over Taiwan, the possibility of another depression, the 2024 US Presidential election, and the war in Ukraine. Papers as below are available on this website as are various spreadsheets in **xlsx** format. Calculations below use the **WEOjuly.xlsx** spreadsheet and the **LoHiProbs.xlsx** methodology.

Probability calculations below for the scenarios outlined are explained in **Probability Assessment** available at the WEB address <https://doi.org/10.17265/2328-2185/2022.05.006>. A short summary article **Assessing Probabilities With Minimal Calculations** can be downloaded from this website as can the **Probability Assessment** paper above

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. Dow at 29/6 is 34,408.
- **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 (no changes this month)

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
TINA	Base = 1	1.00	1.00	0.032	0.020	0.026	3	2	Base	Base
SQ	SQ/TINA	10.00	12.00	0.323	0.245	0.284	28	15	10.92	9.33
BB	BB/SQ	2.00	3.00	0.645	0.735	0.690	69	83	2.43	2.46
				1.000	1.000	1.000	100	100		

WFM are trading water. Commentators seem split between boom and bust! **HE** is similarly confused but on balance feels mistakes by Central Banks will be made and markets will suffer. **SQ** at 28% seems reasonable, but higher this month.

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 (no changes this month)

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
MB	Base = 1	1.00	1.00	0.003	0.002	0.002	1	1	Base	Base
D	D/MB	10.00	12.00	0.027	0.020	0.023	2	4	11.50	2.00
SQ	SQ/D	4.00	5.00	0.108	0.097	0.103	10	12	4.48	5.00
MR	MR/SQ	8.00	9.00	0.862	0.881	0.872	87	83	8.47	8.70
				1.000	1.000	1.0000	100	100		

WFS predictions are based on the same considerations as for **WFM**. The US seems to be fending off a recession, but time will tell. Geopolitical events in France and Ukraine do not favour boom at this point. But the Ukraine war and the Russian situation favour a settlement that leaves NATO and the West generally stronger. Currently any negotiations appear very unlikely but would give the world economy one less thing to worry over.

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 for the scenarios are calculated in the table following.

PROBABILITIES ON TAIWAN DEVELOPMENTS OVER THE NEAR FUTURE (No changes again this month)

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
TINO	Base = 1	1.00	1.00	0.038	0.020	0.029	3	5	Base	Base
TIUS	TIUS/TINO	5.00	7.00	0.192	0.140	0.166	17	21	5.72	5.67
NOTI	NOTI/TIUS	4.00	6.00	0.769	0.840	0.805	80	74	4.85	4.71
				0.999	1.000	1.000	100	100		

It seems paradoxical in Western logic for China to promote negotiations on Ukraine yet threaten Taiwan with invasion. But this could be a classic mistake of attributing your own logic/motives to your opponent.

POTUS 2024

This month we have increased the chance of Trump being the Republican candidate but also increased the chance of Biden beating Trump in the run-off. Scenarios in order of likelihood follow:

- Other: Someone other than Biden and Trump emerges as a credible candidate
- Trump
- Biden

PROBABILITIES ON POSSIBLE POTUS 2024 OUTCOMES

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
Other	Base = 1	1.00	1.00	0.039	0.027	0.033	3	9	Base	Base
Trump	Trump/Other	5.00	6.00	0.192	0.162	0.177	18	14	5.36	6.00
Biden	Biden/Trump	4.00	5.00	0.769	0.811	0.790	79	77	4.46	4.39
				1.000	1.000	1.000	100	100		

This month we increase Trump's chance of the Republican nomination but also increase Biden's chances in the actual election.

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

Scenarios		Pairwise Range		Probabilities					More Likely Values	
Events	Ratios	Low	High	Low End	High End	Average	%	Previous	Average	%
CRT	Base = 1	1.00	1.00	0.077	0.053	0.065	6	3	Base	Base
CUT	CUT/CRT	1.50	2.00	0.115	0.105	0.110	11	18	1.69	1.83
STM	STM/CUT	7.00	8.00	0.808	0.842	0.825	83	79	7.50	7.55
				1.000	1.000	1.000	100	100		

This month **HE** has increased the chances for **STM**. Ramifications from Russian developments have yet to play out and could see Russia more amenable or more belligerent.