Weekly round up (Week 16)

Escalating geopolitical risks in the Middle East and elsewhere sparked renewed volatility on financial markets last week, despite improved global growth prospects.

Risk assets were particularly hard hit: in the US, the S&P 500 index fell by 3% and the Nasdaq by 5.5%. Japan's Nikkei index fared even worse, falling by 6.2%. Credit markets were not spared, with option-adjusted spreads on US high yield bonds widening by 14 basis points (bps) to 339 bps, although triple-B corporate bonds remained relatively firm, widening by just 4 bps over the week.

Inflationary policy

On April 12, the UK and the US announced an extension of the ban on metal exchanges accepting Russian-produced aluminum, copper and nickel, while prohibiting imports of these metals. This news led to a strong week for industrial metals, with the price of aluminum rising by almost 5%. The United States and the European Union are also preparing new sanctions against Iran in response to its missile and drone program.

Meanwhile, the trade war between the US and China continues. U.S. President Joe Biden has called for a tripling of tariffs on Chinese steel and aluminum imports, to protect the U.S. steel and shipbuilding industries from China's "unfair practices". On the other hand, during his meeting with German Chancellor Olaf Scholz in Beijing last week, President Xi Jinping asserted that Chinese exports were helping to curb global inflation and support the energy transition.

Spring in Washington

Growth took center stage last week at the annual spring meeting of the World Bank and the International Monetary Fund (IMF), held in Washington DC. During the event, the IMF released revisions to its global economic outlook, generally upwards, with a few exceptions **(see this week's chart)**.

Global growth was raised by 0.1% to 3.2% in 2024. Advanced economies are now expected to grow by 1.7%, and the US by 0.6%, to reach 2.7%. The IMF said that most indicators point to a soft landing in the US, although its projections for the Eurozone are more pessimistic, lowering its growth forecast for 2024 from 0.9% to 0.8%.

Prospects for emerging markets look more favorable, with emerging and developing economies expected to grow by 4.2% this year. Improved growth in India and Brazil contributed to this revision. Asia should account for 60% of global growth this year, driven by India.

China's estimated growth remained unchanged at 4.6%, although given the better-than-expected economic data, a revision of the IMF's next economic outlook cannot be ruled out. In the first quarter, China's economy grew by 5.3% year-on-year, well above the 4.6% consensus of economists polled by Reuters. This suggests that the Chinese economy is building on the momentum of Q4 2023, when it grew by 5.2%.

Fiscal leeway

The IMF has dropped its fears of an imminent recession and said it was positively surprised by the resilience of the banking systems and emerging countries. Inflation and debt are the main concerns. While still expecting central banks in advanced economies to meet their inflation targets, the IMF warned that recent headline and core inflation figures called for continued vigilance.

In the long term, the IMF is concerned about fiscal largesse. Global public debt is expected to reach 98.8% of GDP by 2029, up from 93.2% in 2023, and the IMF is urging the US and China to act. China's public debt is set to rise from 83.6% of GDP at the end of 2023 to 110.1% in 2029, and that of the USA from 122.1% to 133.9% over the same period. If nothing is done, the IMF warns that China's debt could double over the next 30 years, while that of the USA could rise by 70%.

Forecasts for US rate cuts have been revised downwards in recent weeks, which the IMF attributes to fiscal slippage. "A lax US fiscal policy could make the final stage of disinflation harder to achieve while exacerbating the debt burden," said the IMF.

Last week, members of the US Federal Open Market Committee (FOMC) stepped up their communications, as the recent trend of upward inflationary surprises continued, this time with regard to retail sales. Excluding auto-related receipts, retail sales rose by 1.1% month-on-month, the highest figure since January 2023 and well ahead of expectations of 0.4%.

The FOMC's basic assumption remains that it will begin to remove restrictive policy this year. However, given current economic events, the committee may need more time to reach its inflation target, and restrictive policy may prove necessary for longer. The overnight interest-rate swap market is forecasting just one more 25bp cut in key rates this year, in November.

As we noted in last week's market commentary, the European Central Bank (ECB) is in a different position. Last week, Robert Holzmann, Governor of the Austrian Central Bank and one of the most prominent hawks on the ECB Council, admitted: "If inflation develops as expected and, above all, if geopolitical problems do not worsen, a majority will probably emerge in favor of an interest rate cut in June.

Chart of the week

IMF updates GDP growth forecasts (annual percentage change)

	April outlook			January outlook		
	2023	2024F	2025F	2023F	2024F	2025F
World	3.2	3.2	3.2	3.1	3.1	3.2
Advanced economies	1.6	1.7	1.8	1.6	1.5	1.8
US	2.5	2.7	1.9	2.5	2.1	1.7
Euro area	0.4	0.8	1.5	0.5	0.9	1.7
Germany	-0.3	0.2	1.3	-0.3	0.6	1.6
France	0.9	0.7	1.4	0.8	1	1.7
Italy	0.9	0.7	0.7	0.7	0.7	1.1
Spain	2.5	1.9	2.1	2.4	1.5	2.1
Japan	1.9	0.9	1	1.9	0.9	0.8
UK	0.1	0.5	1.5	0.5	0.6	1.6
Canada	1.1	1.2	2.3	1.1	1.4	2.3
Other advanced economies	1.8	2	2.4	1.7	2.1	2.5
Emerging market and developing economies	4.3	4.2	4.2	4.1	4.1	4.2
Emerging and developing Asia	5.6	5.2	4.9	5.4	5.2	4.8
China	5.2	4.6	4.1	5.2	4.6	4.1
India	7.8	6.8	6.5	6.7	6.5	6.5
Emerging and developing Europe	3.2	3.1	2.8	2.7	2.8	2.5
Russia	3.6	3.2	1.8	3	2.6	1.1
Latin America and the Caribbean	2.3	2	2.5	2.5	1.9	2.5
Brazil	2.9	2.2	2.1	3.1	1.7	1.9
Mexico	3.2	2.4	1.4	3.4	2.7	1.5
Middle East and Central Asia	2	2.8	4.2	2	2.9	4.2
Saudia Arabia	-0.8	2.6	6	-1.1	2.7	5.5
Sub-Saharan Africa	3.4	3.8	4	3.3	3.8	4.1
Nigeria	2.9	3.3	3	2.8	3	3.1
South Africa	0.6	0.9	1.2	0.6	1	1.3
Emerging market and middle-income economies	4.4	4.1	4.1	4.2	4	4
Low-income developing economies	4	4.7	5.2	4	5	5.6

Up
Down
No change

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