

# Economics & Country Risk

A Geopolitical Storm Brewing?



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# Economics & Country Risk



## Expertise

450+ recognized experts in economics, country risk, and commodity market analysis

## Visualization

- Location specific risk scores for each 500x500 meters
- Political Violence, Civil unrest, Terrorism, War scores
- 2,500 intelligence events added weekly
- Localized economic data

## Forecasting models

Comprehensive models linking the global economy, price changes, industry impacts, and risk factors allowing for what-if analysis and accurate planning

## Data

- Purchasing Managers Index (PMI)
- 5m+ historical macro data series
- 250 – 800 forecast indicators per geography
- Commodity price forecasts for over 4,000 items
- Local risk ratings for 190+ countries



# Agenda

## **1. Geopolitical Questions**

## **2. Russia – Ukraine War**

1. Current situation and outlook
2. Global re-alignment
3. Impact on food security – global outlook

## **3. US-Iran negotiations: current situation and outlook**

## **4. US-Venezuela: sanctions outlook**

## **5. US-China: Strategic competition and soft containment**

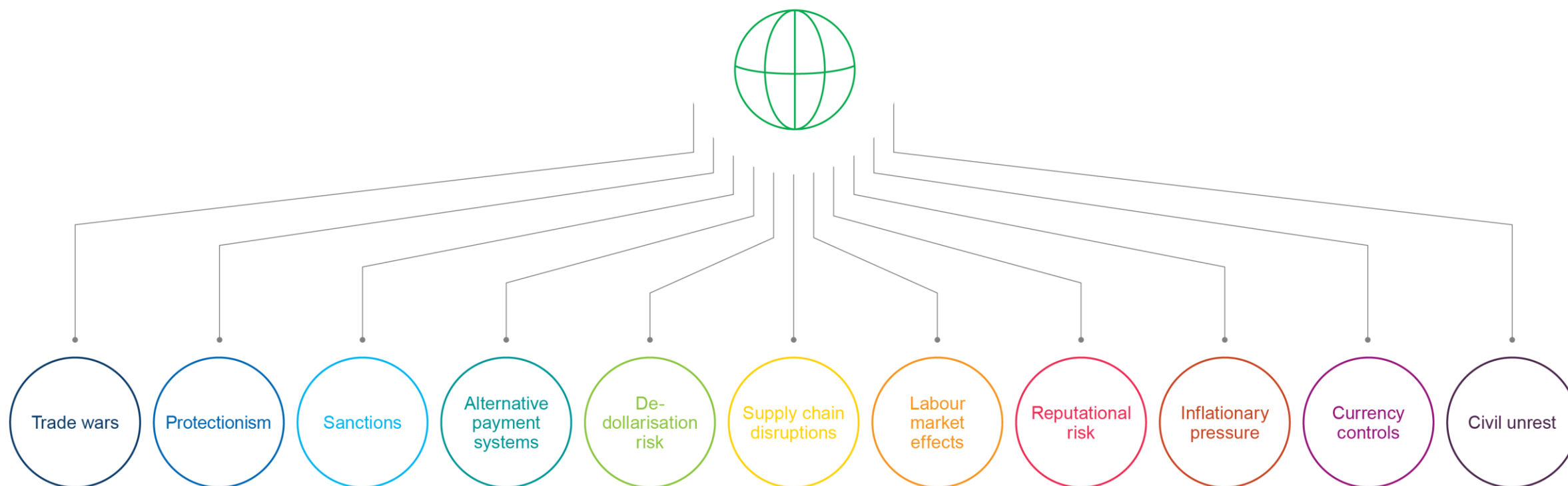
## **6. US Midterm elections**

## **7. Q&A**

# Geopolitical events becoming increasingly disruptive- both to company operations and the world economy

## Geopolitics: Commercial impact

### Geopolitics: Commercial impact

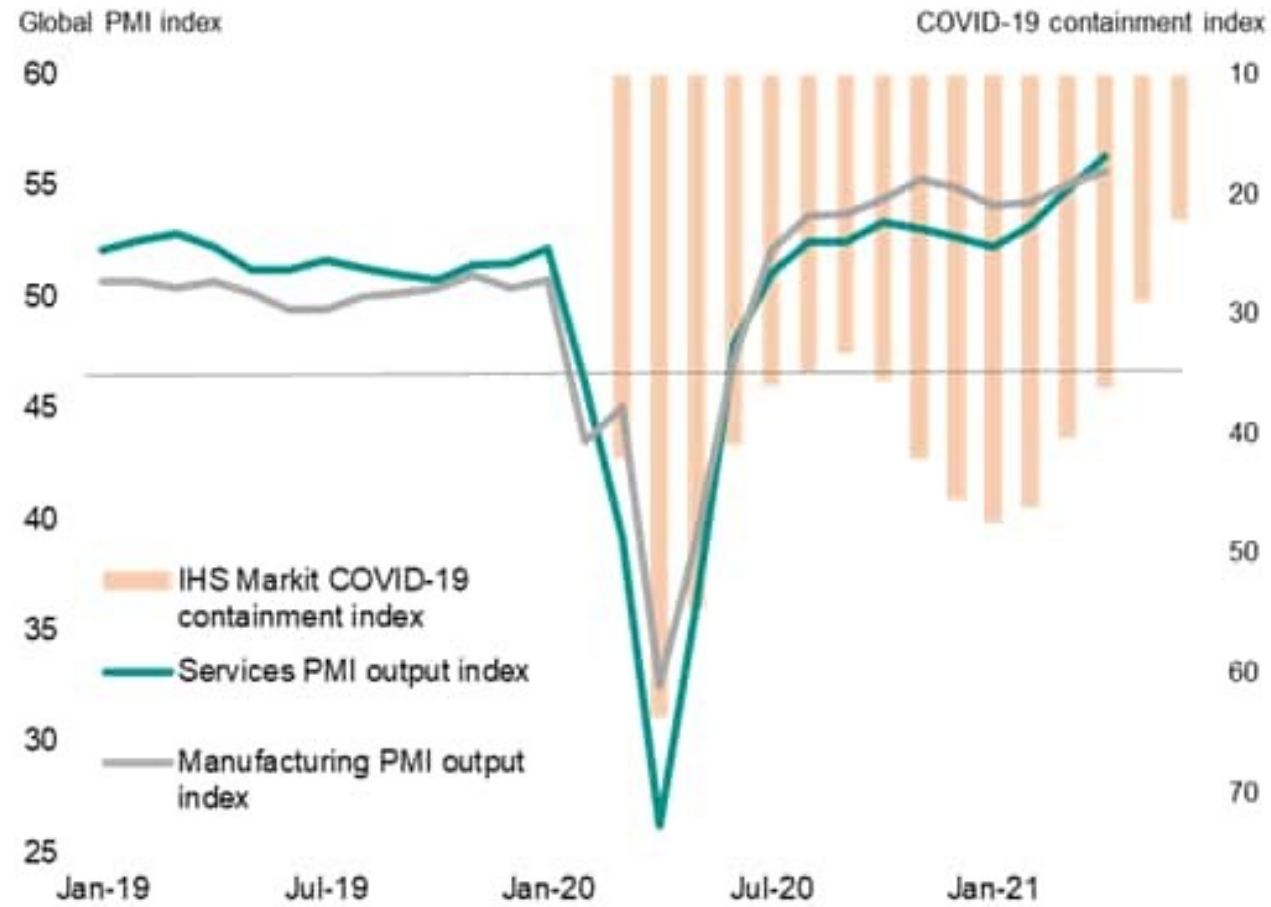


Source: IHS Markit

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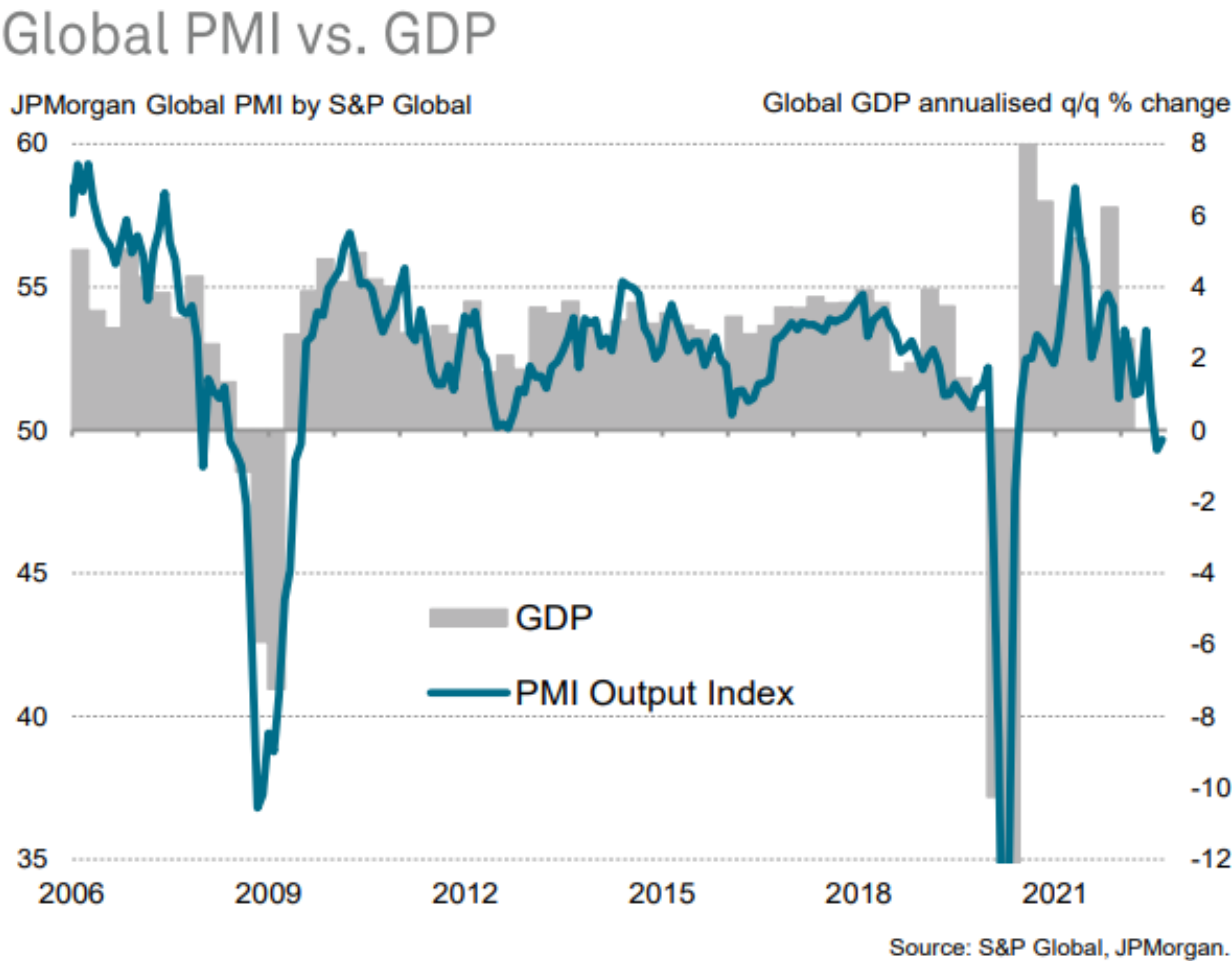
# COVID, then Russia/Ukraine at the centre of the storm

## Global PMI\* and Covid-19 containment\*

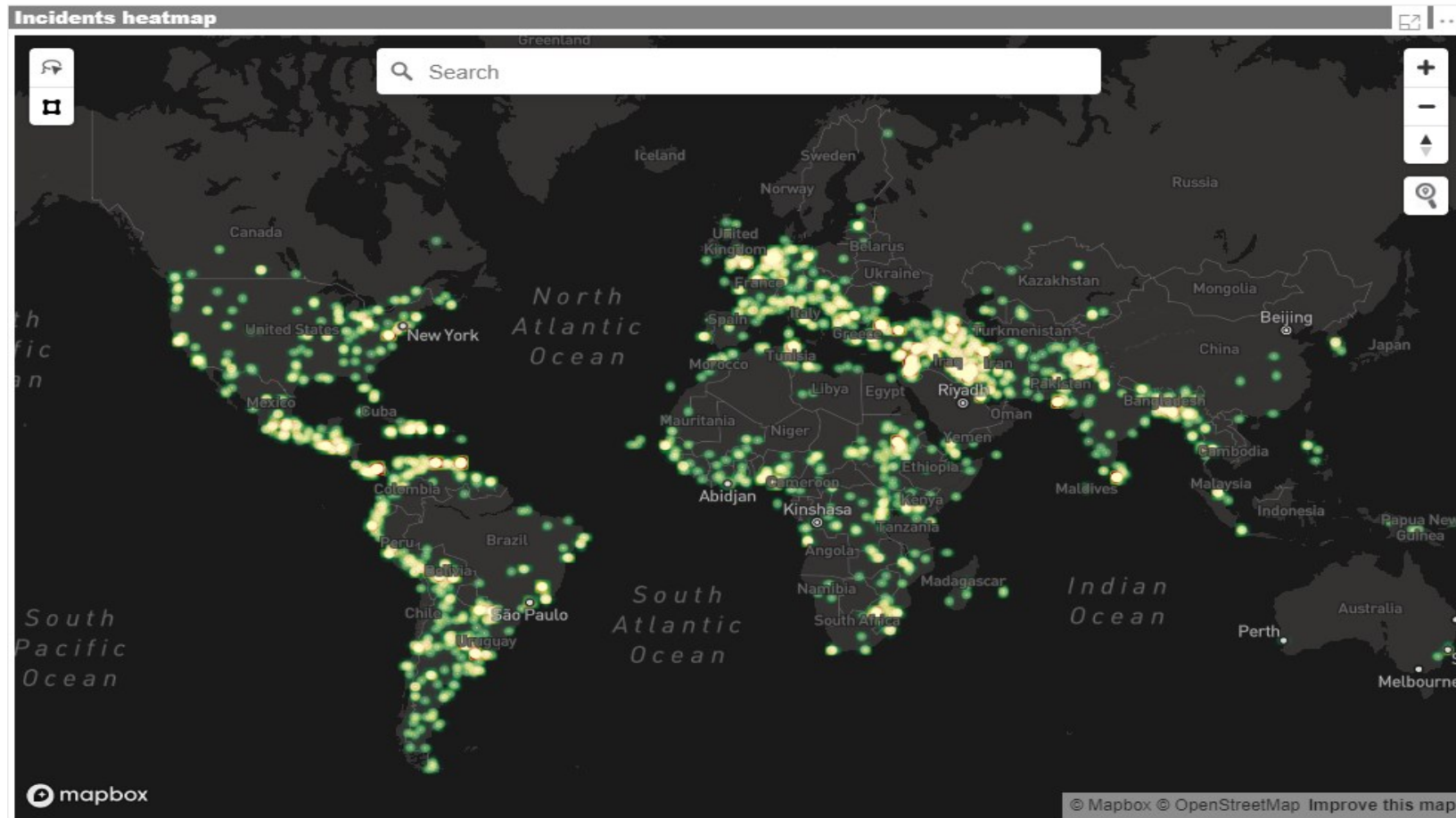


Source: IHS Markit, JPMorgan

# COVID, then Russia/Ukraine at the centre of the storm



# Global political discontent, policy instability and social unrest rising due to cost-of-living crisis

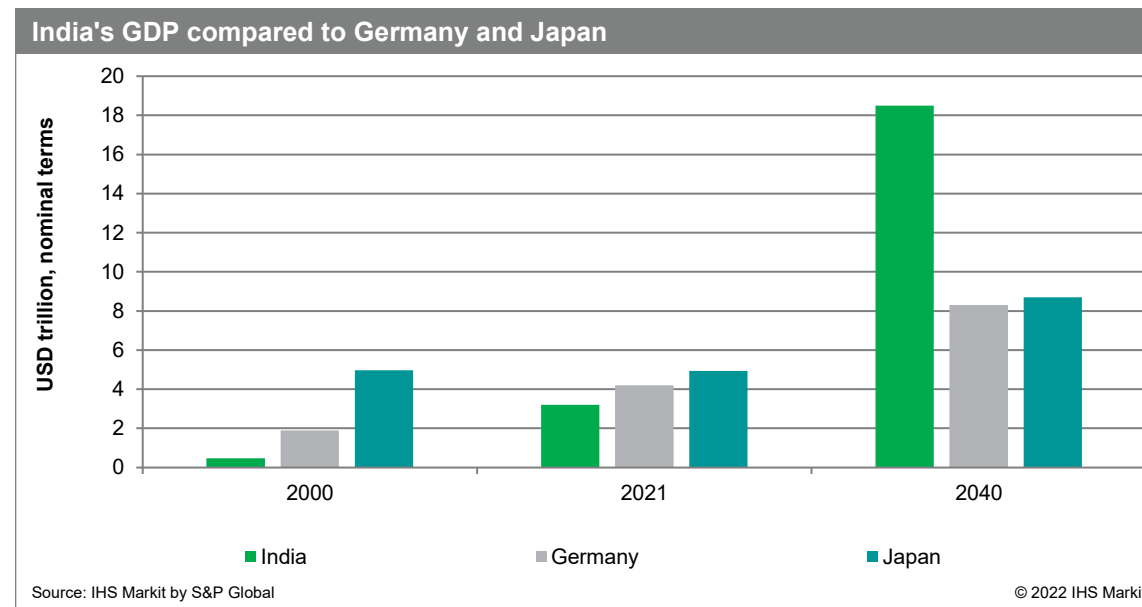
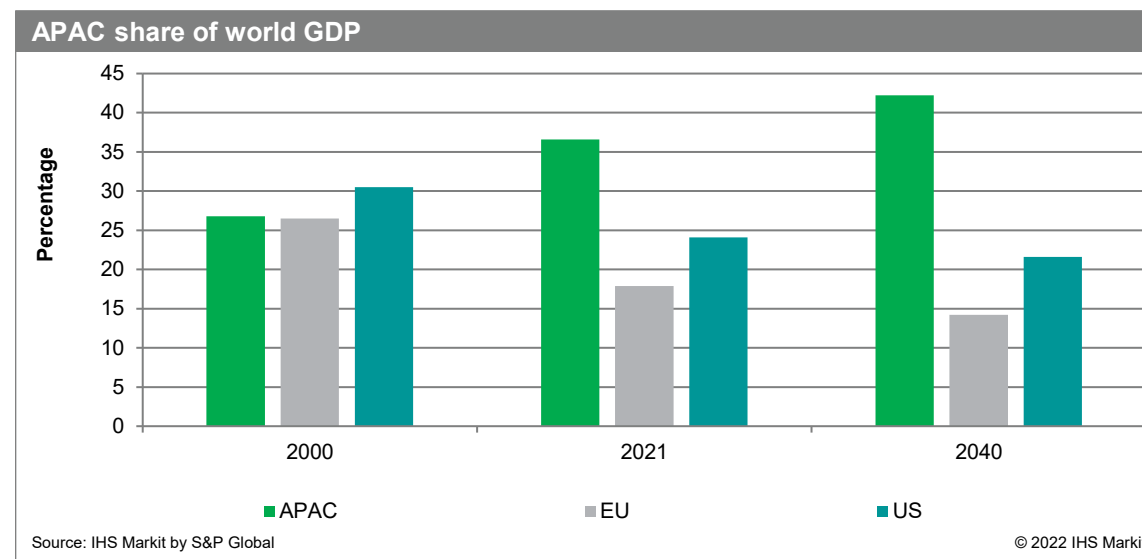
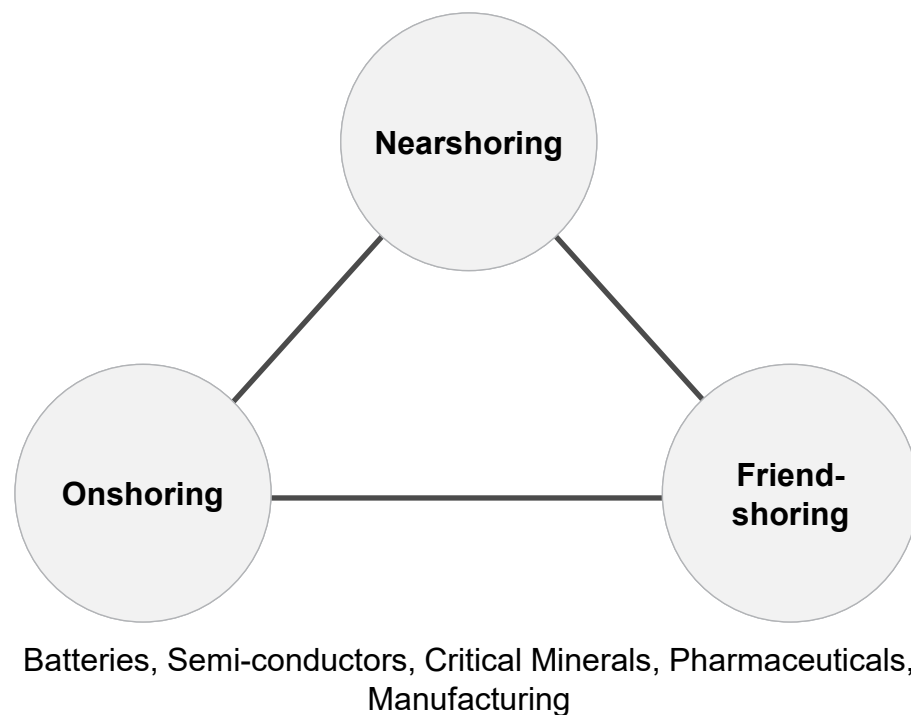


Global Civil Unrest Incidents 22 Jun 22 – 16 Sept 22 Connect by S&P Global

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# Rather than deglobalization, it is likely that we are moving into a process of global re-configuration/re-calibration

- China increasingly influential throughout the rest of the world – companies caught in the middle of geopolitical competition/rivalries
- By 2040, the economic weight of the APAC region will reach around 42% of world GDP.

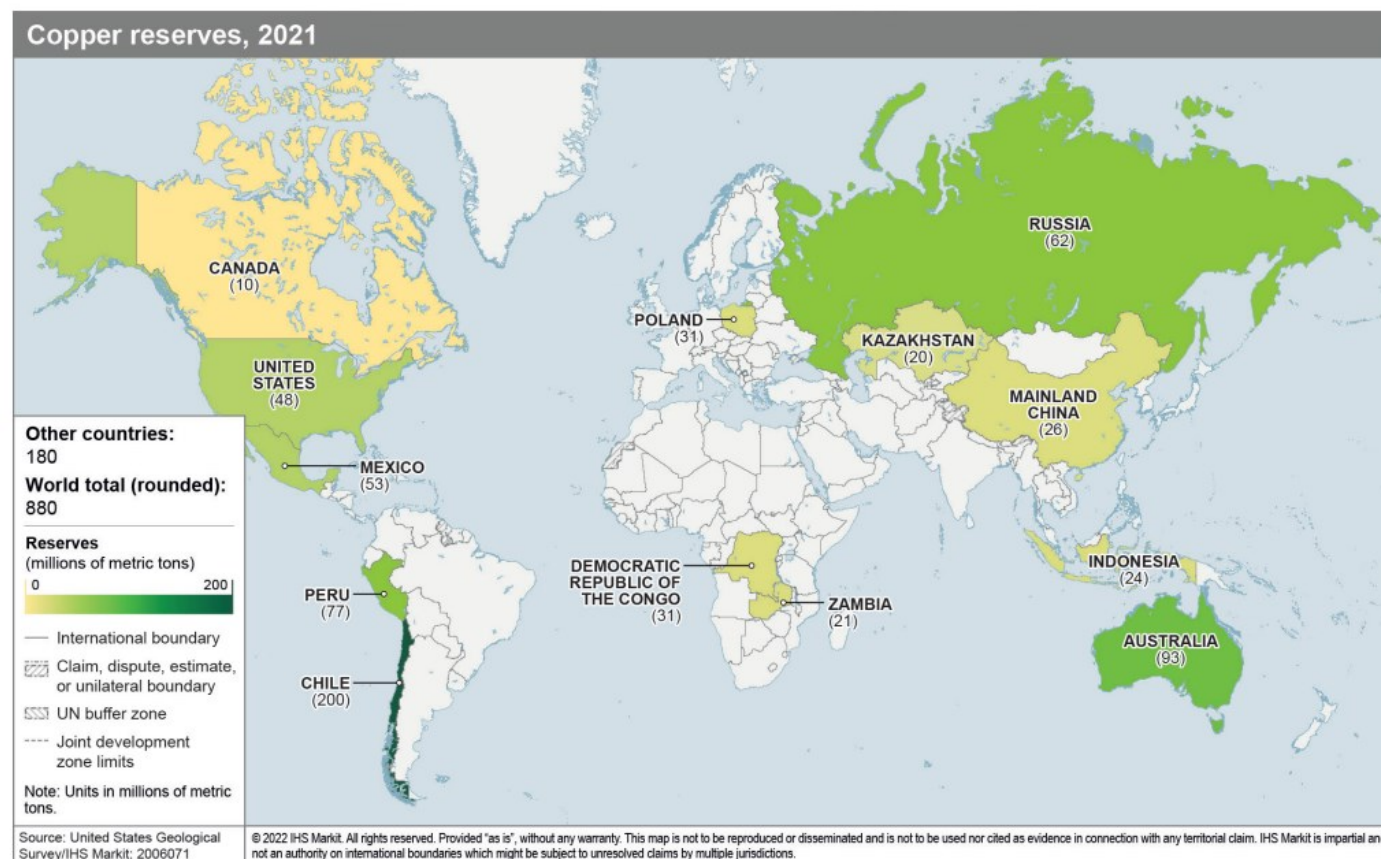




# Oil defined geopolitics in the 20<sup>th</sup> century- the energy transition will likely shape geopolitics in the 21<sup>st</sup> – as countries compete for the supply of minerals

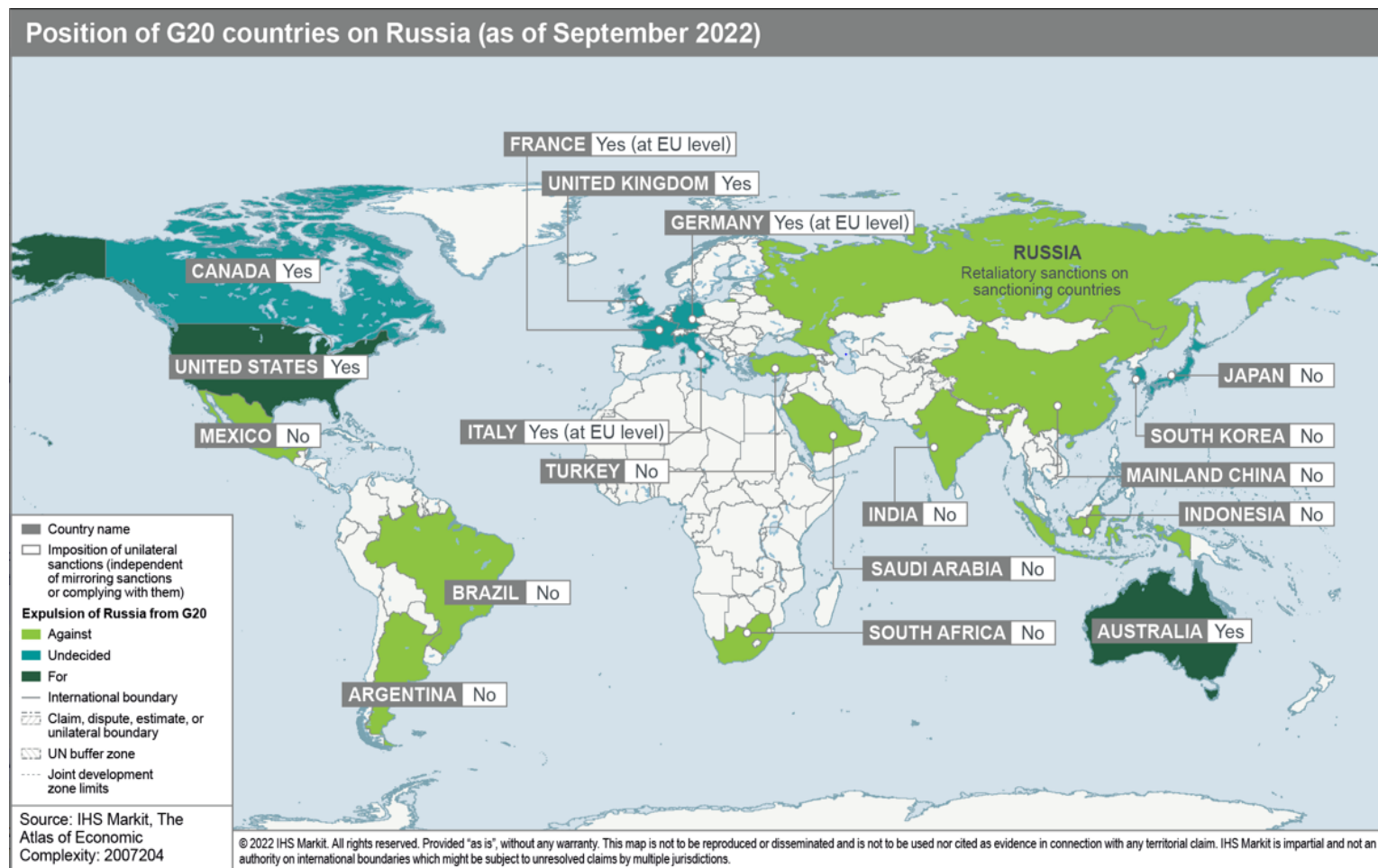
- China is the largest producer of 12 of the 18 critical minerals. Three countries control 73%-98% of production.\*
- Copper demand is projected to grow from 25 million metric tons (MMt) today to about 50 MMt by 2035.
- The chronic gap between copper supply and demand will have serious consequences across the global economy and will affect the timing of Net-Zero Emissions by 2050.
- Mining needed for the transition, including of lithium, will accentuate water stress risks.

*'Raw material will power our future. But a few countries now control supplies and processing. We should not fall into the same old dependencies.'* Ursula von der Leyen 17 Sept 2022



\*UK's Critical Minerals Intelligence Centre.

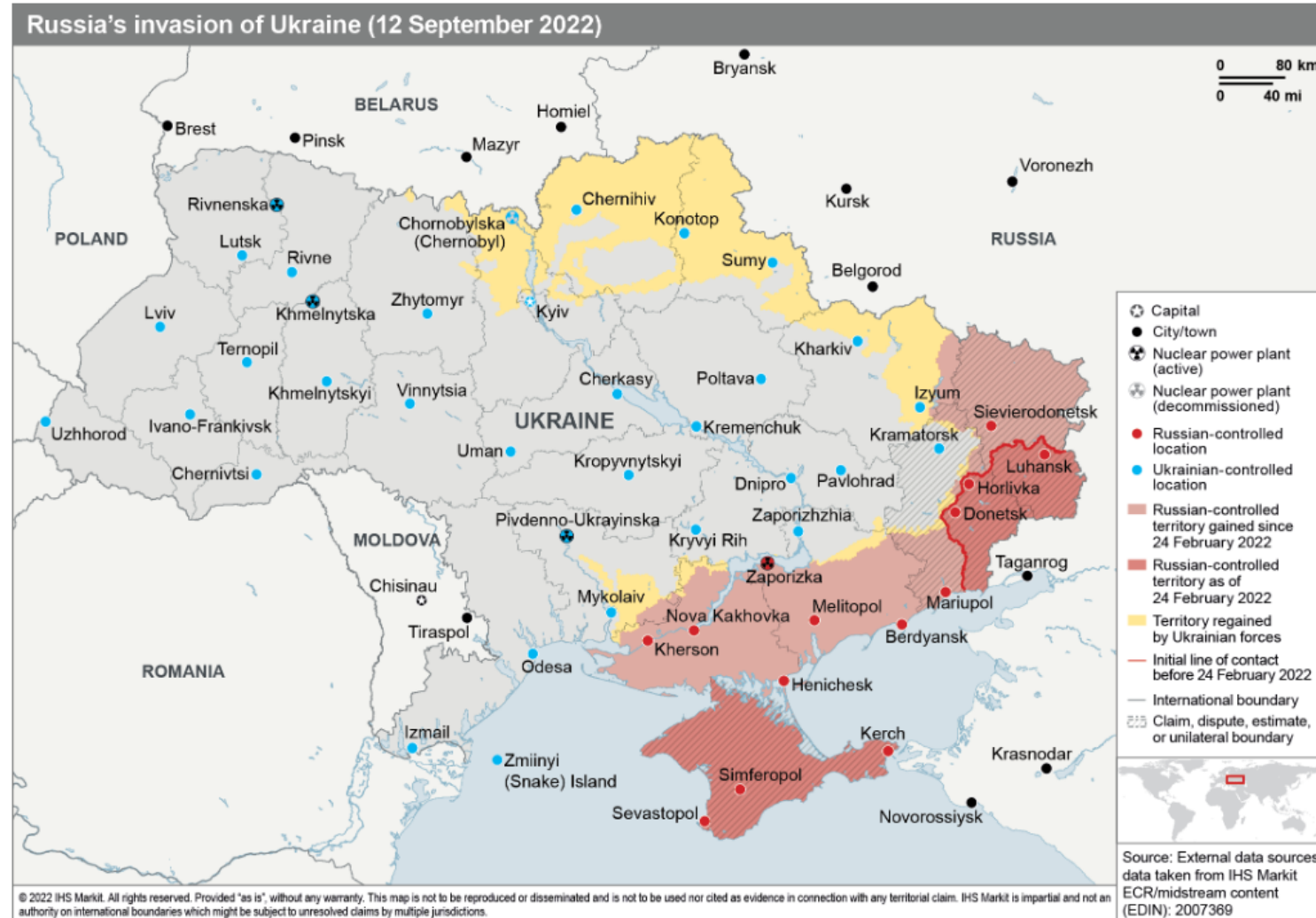
# The international response to the conflict is not monolithic – Russia is increasingly isolated but some unwilling to impose own sanctions and interested in trade



- Despite Russia's isolation at UN **80%** of the G20 is **against or undecided** G20 expulsion.
- This does not mean support but adoption of neutrality. China-India concerned as expressed in SCO.
- China, India, Turkey purchasing oil at a discount. Indonesia considering all oil supply options.
- Brazil's fertilizing imports doubled, its President negotiating import of Russian diesel.
- Turkey increasing exports to Russia.
- Alternatives to SWIFT and the US dollar being considered – but sanctions fears increasing.

# **Russia – Ukraine War: Current situation and outlook**

# Russia/Ukraine at the centre of the storm







# The Actors... Ukraine – Volodymyr Zelenskyy



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- **Before:** Declining popularity; Incredulous about war; military better prepared
- **Now:** Personal survival; populous locked in; must keep West involvement



By Wikimedia. CC 2.0



## The Actors... US – Joe Biden



By Gage Skidmor CC 2.0



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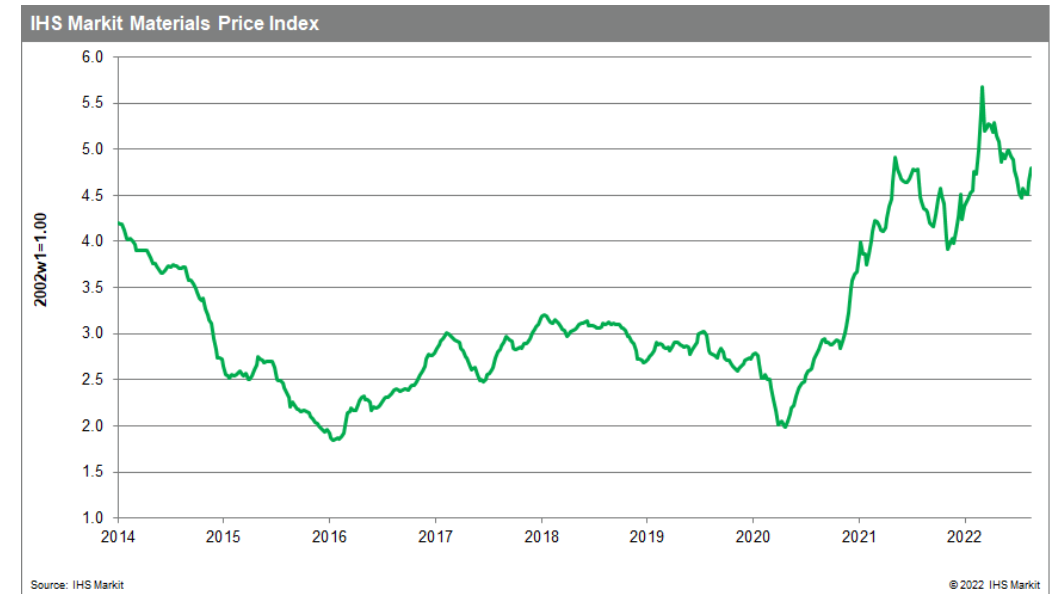
- **Before:** Primary focus on China; Europe secondary; Afghanistan debacle; Wants working relationship with Russia; inconsistent relations with Ukraine (NATO); 6 January
- **Now:** Planning for the long term; sanction stickiness; Trump/GOP question

# The Actors... Europe



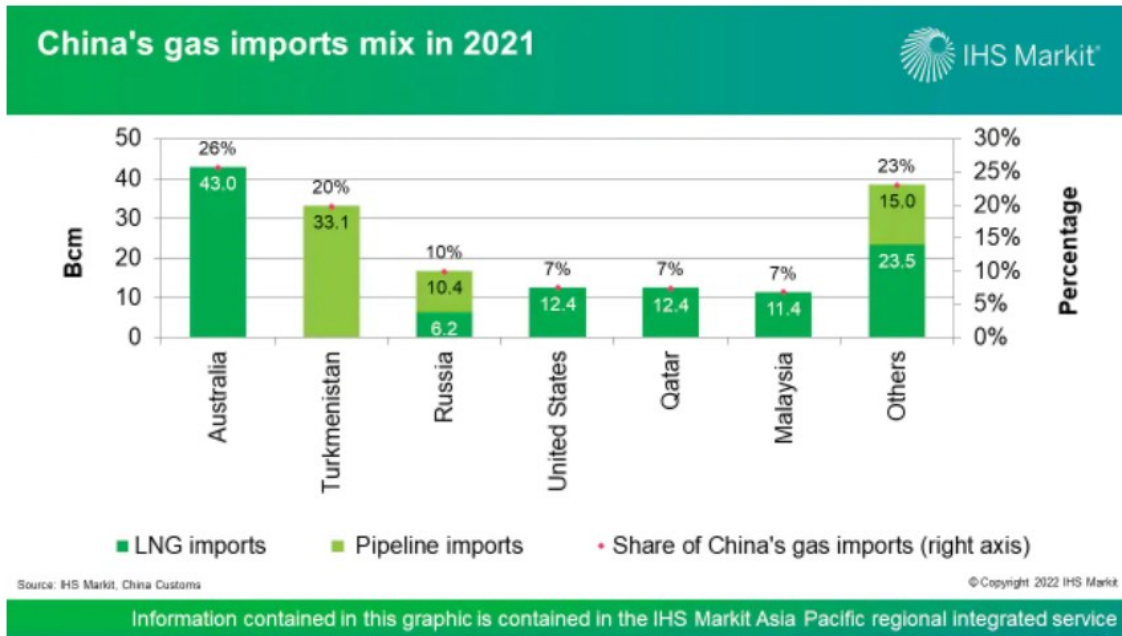
Sandro Halank, CC BY-SA 3.0

- **Before:** EU in transition; multiple elections, believed Putin's diplomacy; reliant on Russian energy
- **Now:** Led the way on sanctions; now starting to slow; major government instability questions; protest risk implications from energy price spikes





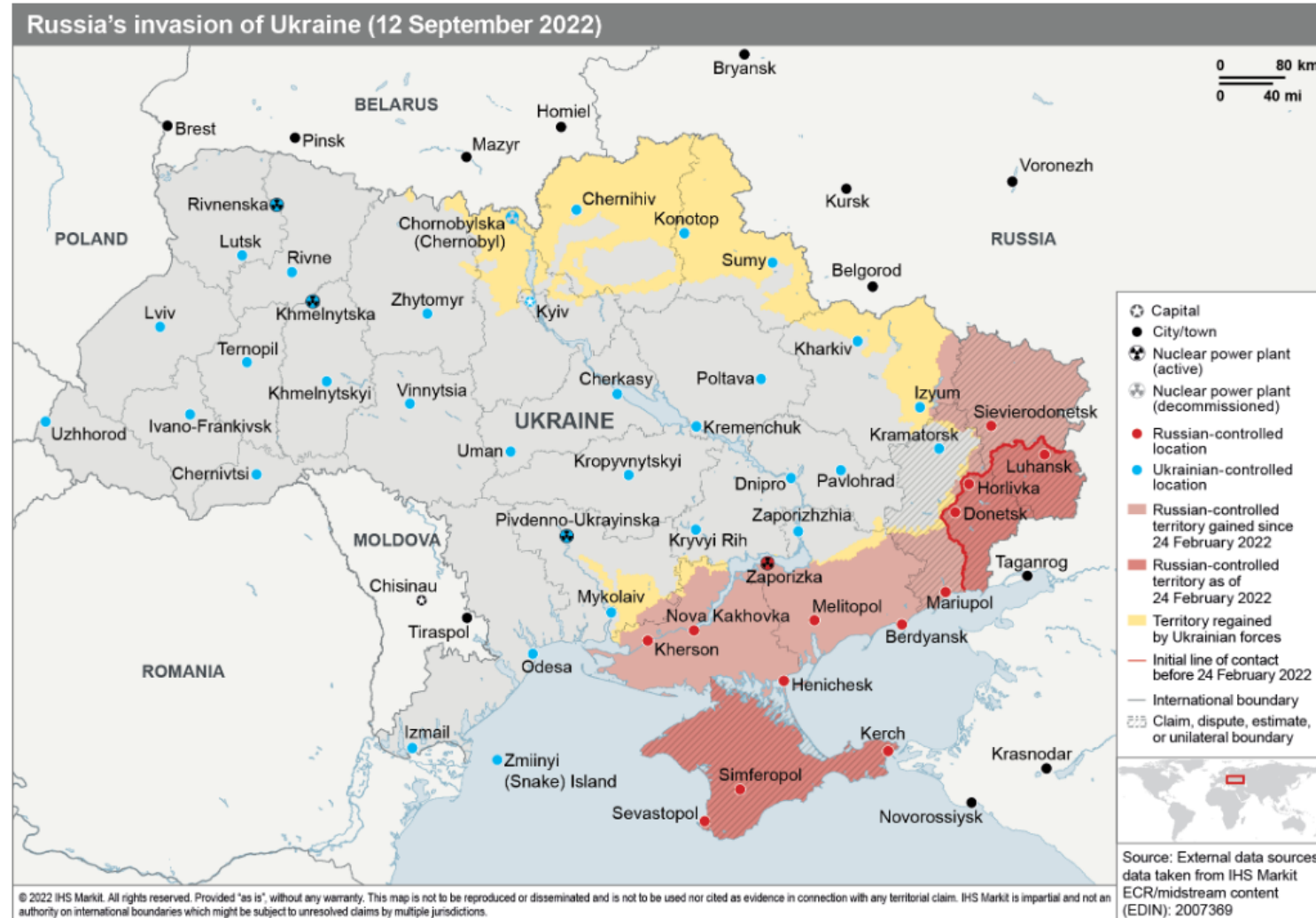
# The Actors... China – Xi Jinping



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- **Before:** Enemy of my enemy – US; Chinese dependence on Russian natural resources; Likely knew of invasion
- **Now:** Major party meetings; COVID focused; limited war support; Russian junior partner

# Russia/Ukraine at the centre of the storm



## **US – Iran negotiations: Current situation and outlook**

# Outlook

It is more likely than not that a nuclear deal will be achieved in H1 2023, with Iranian leadership willing to drop some demands

## Positive Indicators

- Iran retracted two of its key previous demands: removal of the IRGC (or its economic affiliates) from the US' FTO
- Rising **global oil prices** and Iran's potential to partially compensate for Russian energy export shortfall give Iran's leadership **leverage** to press the US for more concessions on sanctions, but this leverage is limited.

## Sticking points

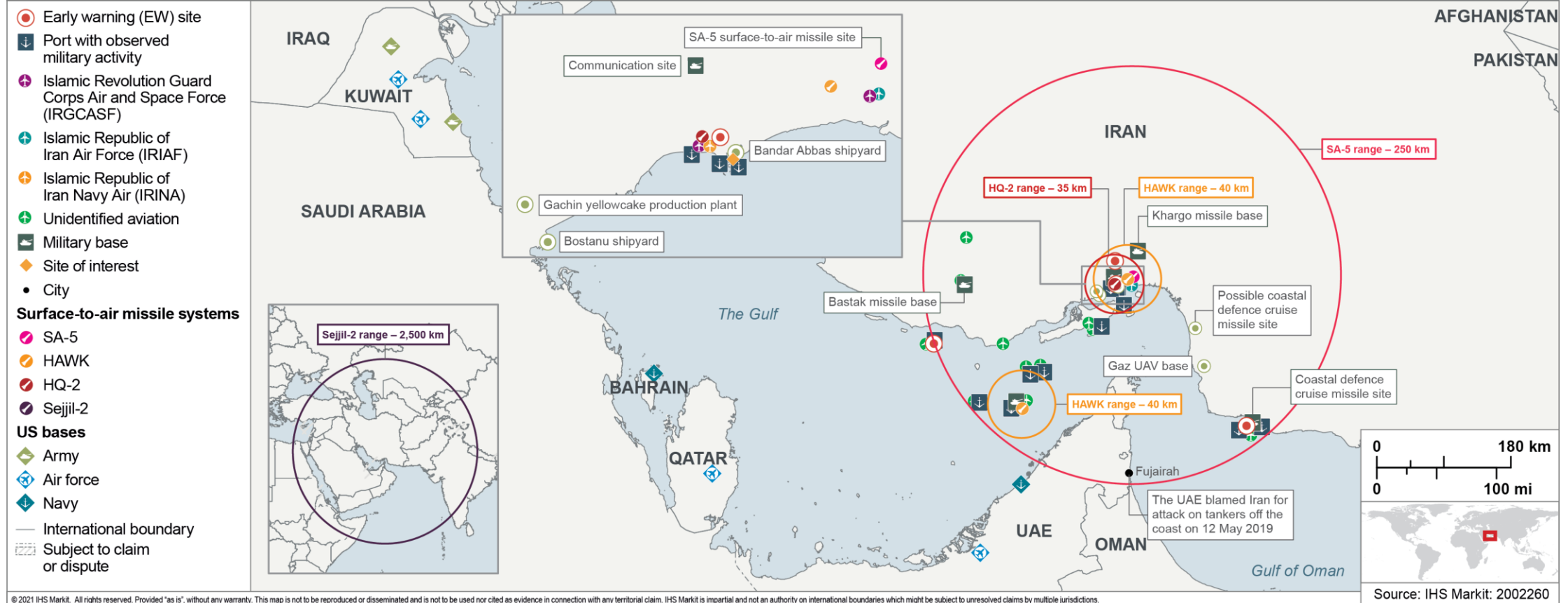
- IAEA probe into alleged sites of nuclear concern identified in 2018. US commitment issues remain.
- Already considerable quantities of highly enriched uranium >43kg at 60% - enough to make a fissile device?
- Israel unlikely to accept new conditions and continue with sabotage operations.



# Outlook

Conflict in the Gulf unlikely while talks are ongoing, but Iran pursuing weaponization would likely provoke sudden escalation

## Bases and Air Defences around the Strait of Hormuz

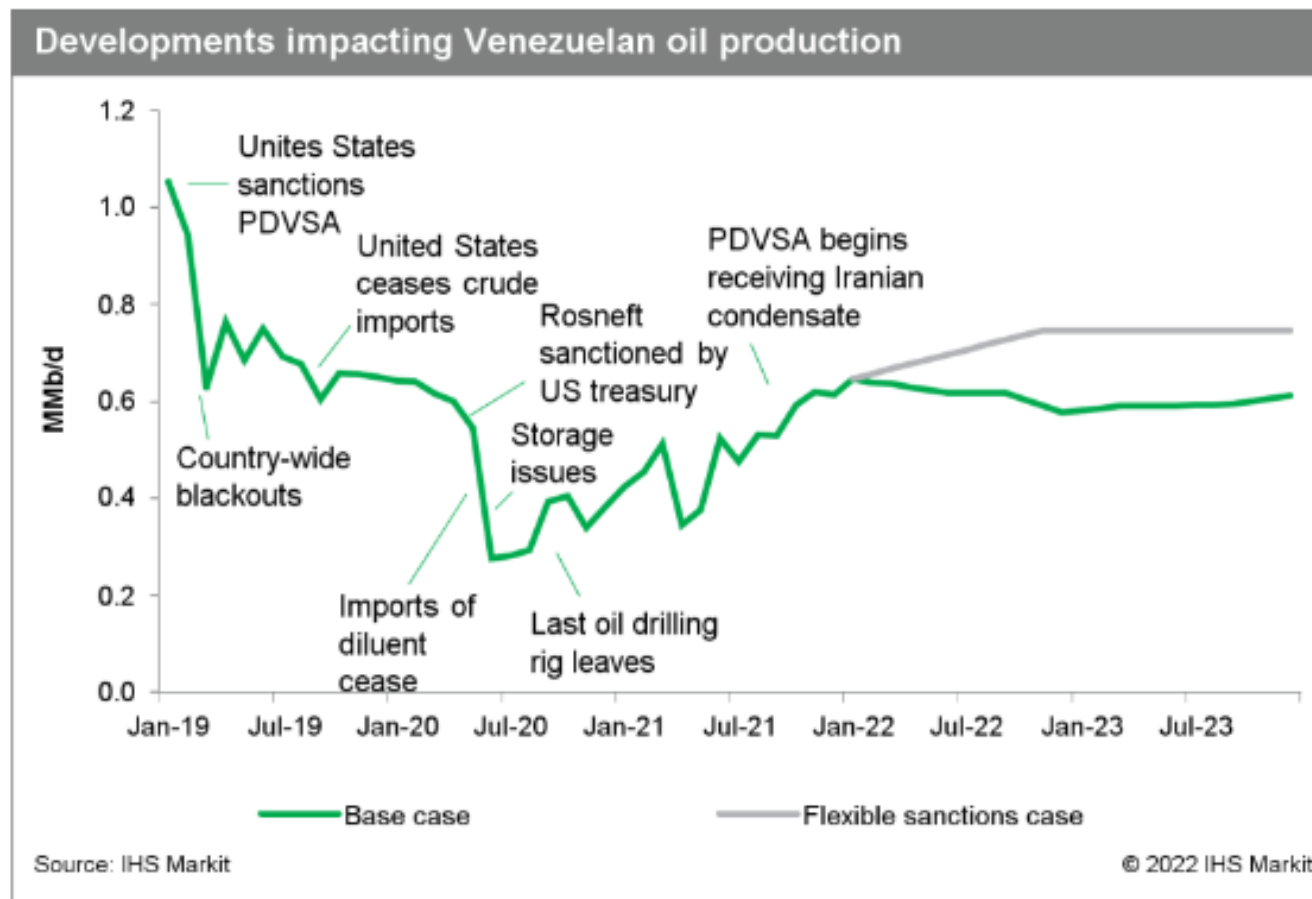




## **US – Venezuela: Sanctions outlook**

# Outlook

**Strengthened Maduro will prioritise non-US-aligned allies; limited sanctions relief due to immigration and oil price concerns**



- Pursuing sanctions relief and wants to increase oil production
- Wants political recognition
- Military loyal and opposition divided.
- Food shortages eased
- **Outlook:** Continues to prioritise closer relations with its non-US-aligned allies. US has offered limited sanctions relief due to influx of Venezuelan immigrants and higher oil prices.

## **Mainland China – Taiwan and outlook for APAC**



# The Big Meeting



China bystander, CC BY-SA 3.0

- Party meetings beginning now
- Xi's 3<sup>rd</sup> term affects policy making process, though primarily policies remain the same
- Key indicators include standing committee composition
- US practicing “soft containment”

# Outlook

## Multiple disputes for increasing confrontation in the 24-month outlook across South China Sea region

South China Sea territorial disputes							
Area of dispute	Brunei	Mainland China	Indonesia	Malaysia	Philippines	Vietnam	Taiwan
Paracel Islands		○				○	○
Spratly Islands (in whole or part)	○	○		○	○	○	○
Seas north of the Natuna Islands		○	○				○
Scarborough Shoal		○			○		○
Pratas Island		○					○

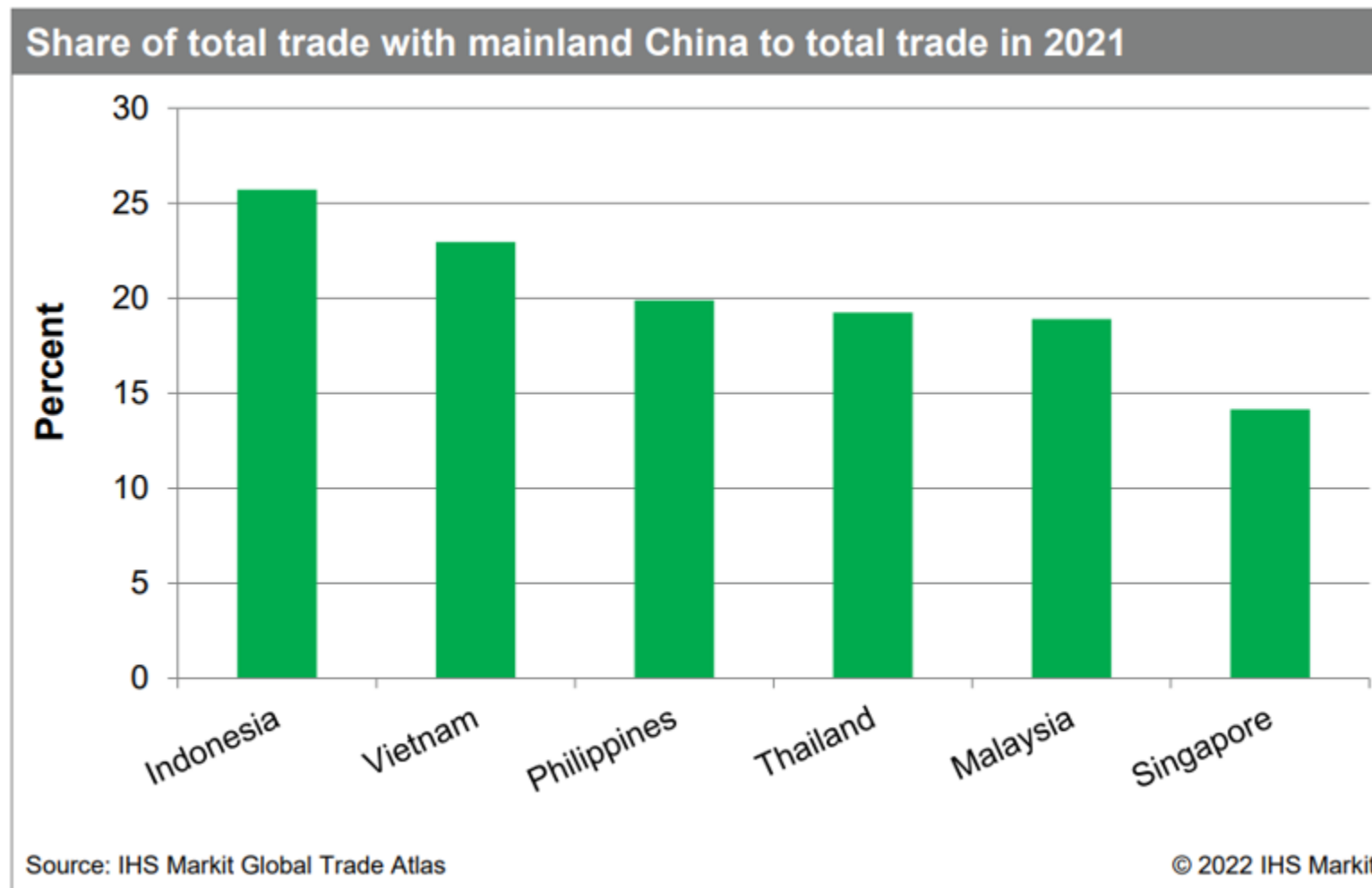
○ Territorial disputes

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# Outlook

Potential conflict risks mitigated for now by intertwined economies with mainland China

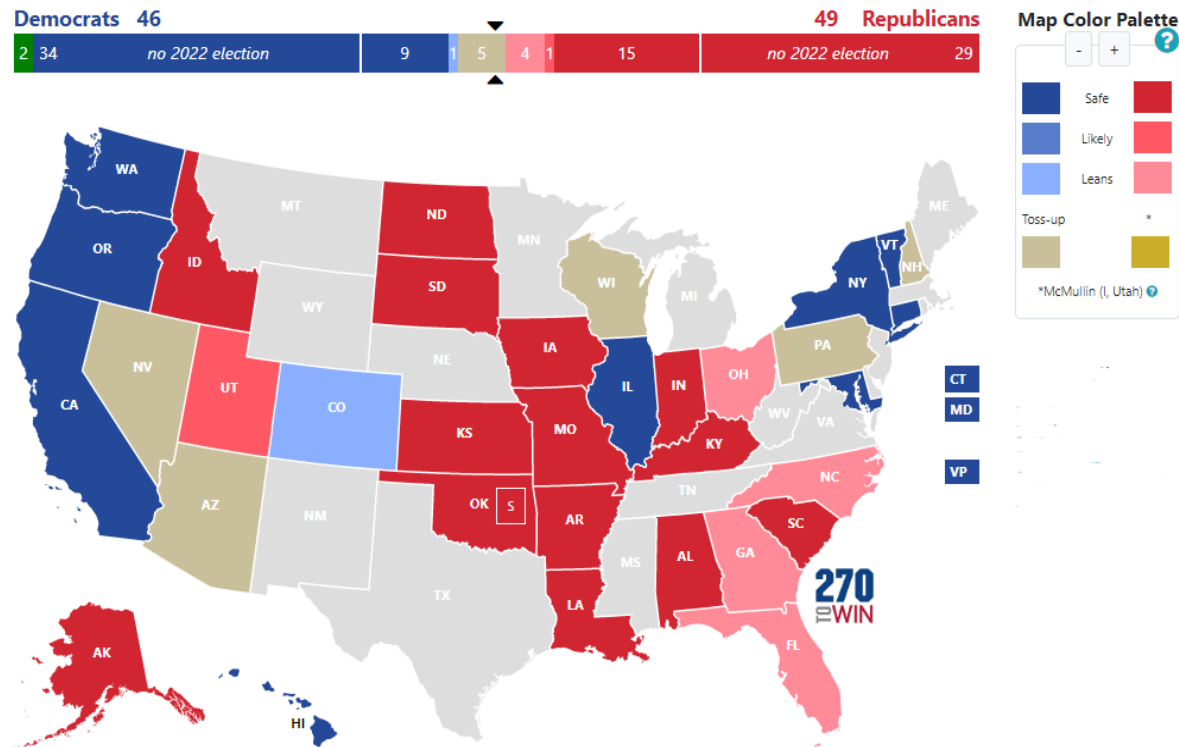


- Indonesia's biggest trade partner is **mainland China**
- Malaysia's biggest trade partner is **mainland China**
- Philippines' biggest trade partner is **mainland China**
- Vietnam's biggest trade partner is **mainland China**

# US Midterm elections

# US Midterms – GOP Advantage

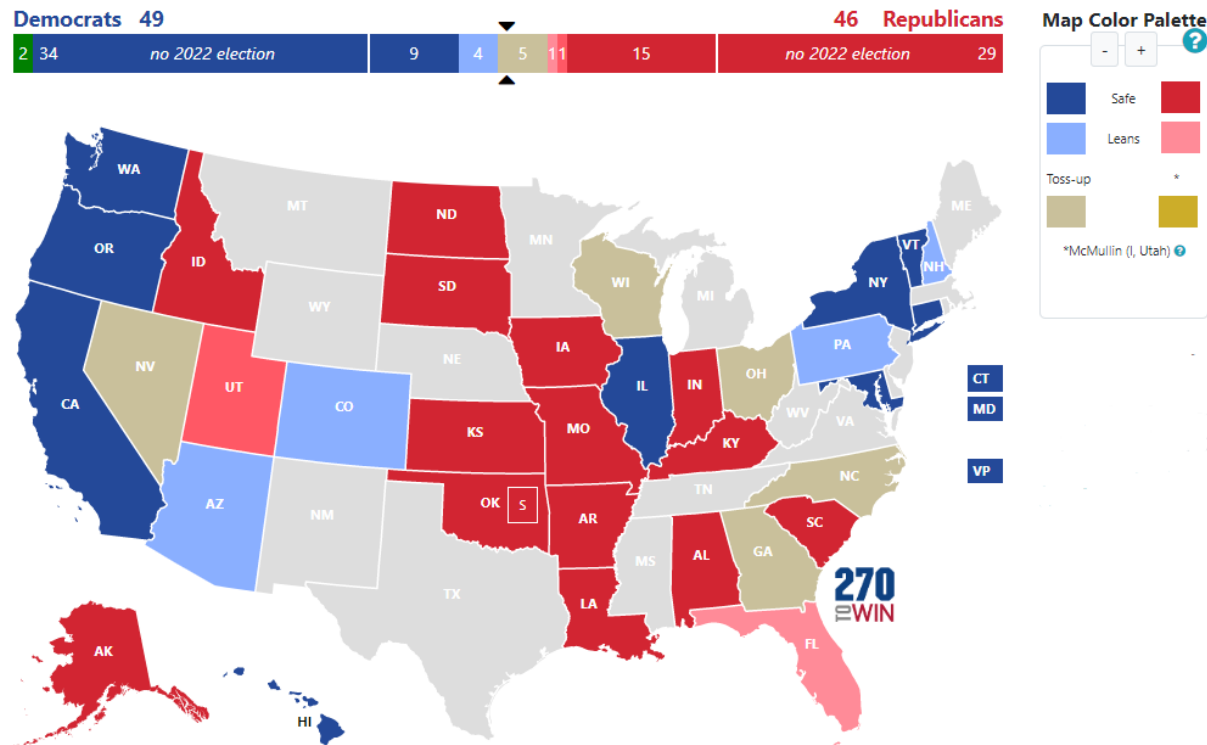
## Senate Forecast – May 2022



- On average, president's party loses 26 seats in the House and 4 in the Senate
- Inflation the highest since 1980's
- Crime at levels not seen since 1990's
- Border apprehensions at levels not seen since 1980's
- Biden popularity under 50%
- GOP taking popular stances on social issues
- Off-year elections: Virginia, New Jersey, Texas

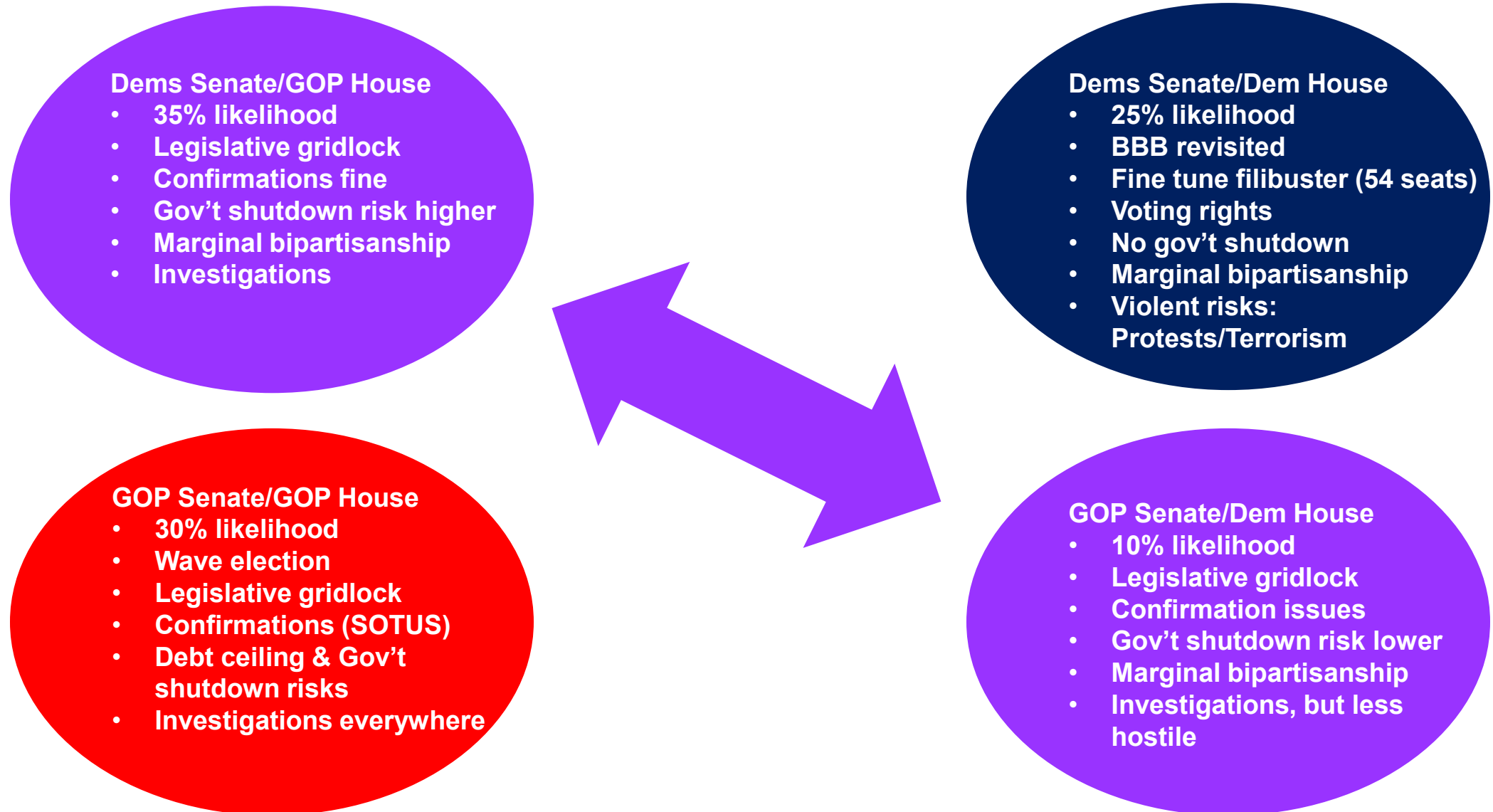
# US Midterms – Dems advantage

## Senate Forecast – September 2022



- Dems have made gains (though Republicans still lead):
  - Abortion (especially in toss up states)
  - Legislation
  - Student debt
- Biden numbers ticking up
- Campaign coffers
- Roe decision: Women registrations up
- Special elections: Kansas, New York

# Midterm election scenarios



# Q&A



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