2024 Outlook

What lies ahead

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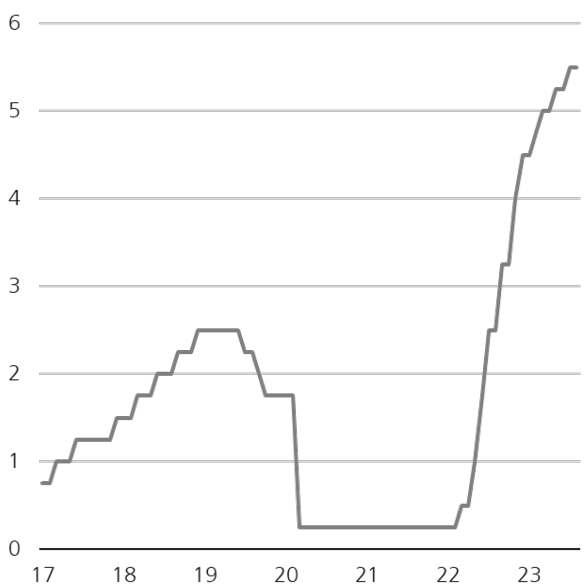
2023 in review: Fed paused, US recession averted, AI rally boosted tech stocks

Fed raised rates in July but is likely at the end of its tightening cycle

Federal funds rate, upper bound, %

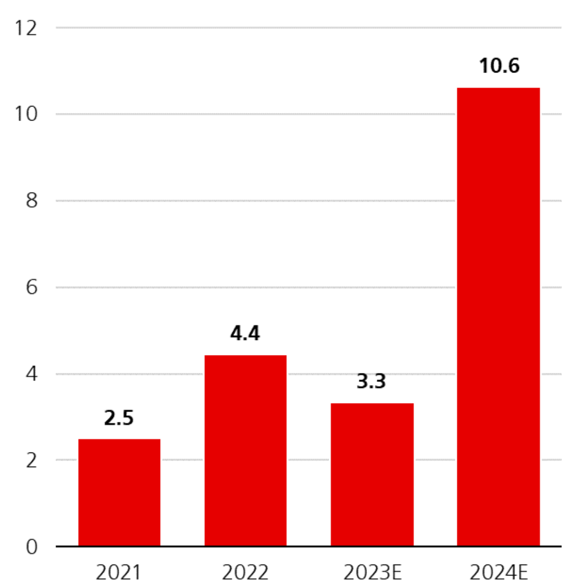


The US recession is averted for now, as suggested by resilient incoming data

Atlanta Fed GDP nowcast, % q/q saar

Strong Nvidia earnings indicate AI demand is outstripping supply

Nvidia earnings per share (eps), based on consensus estimates



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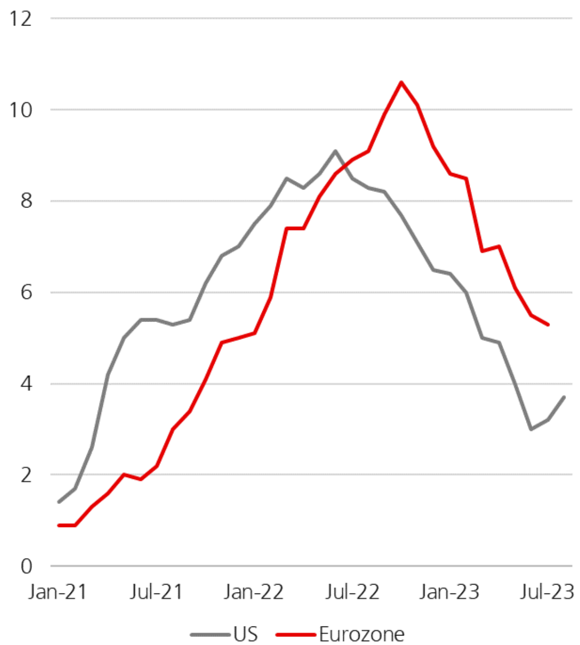
Heading into 2024, the global economy looks more balanced…

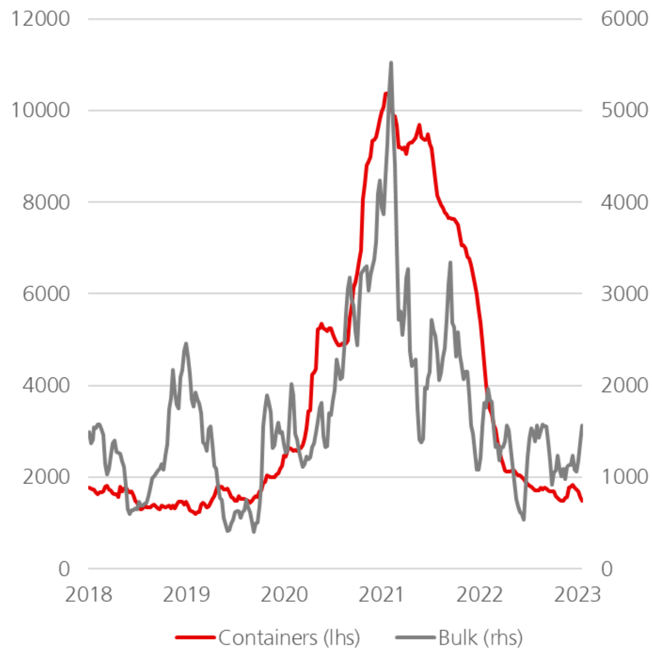
Inflation is receding gradually

US and Eurozone headline CPI, % y/y



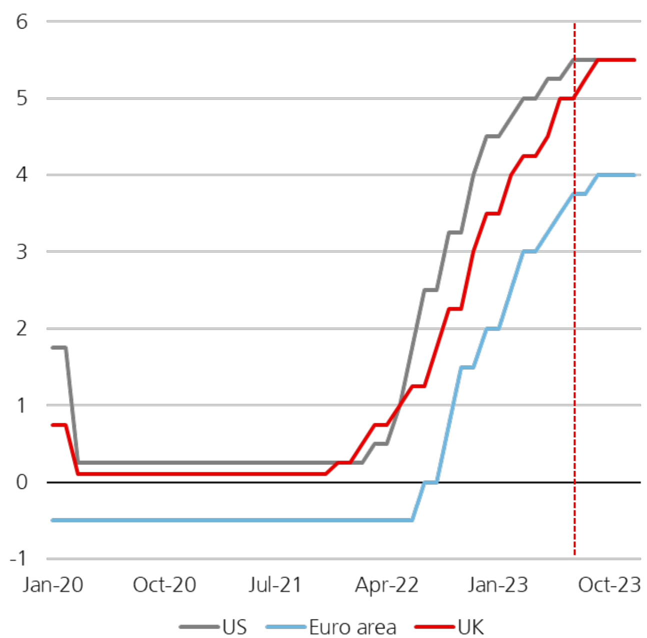
Global supply chains have normalized

In index terms



Policy tightening likely nearing its end

US, Euro area, and UK policy rates, %, actual and UBS forecasts



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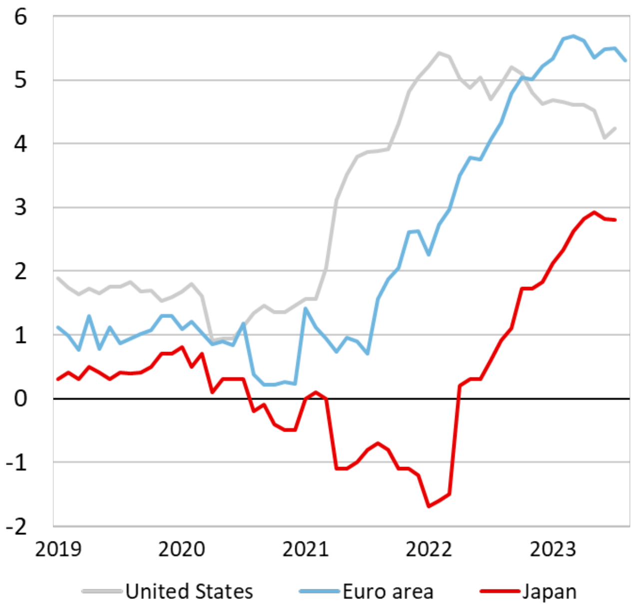
… but risks to the near-term global outlook remain tilted to the downside

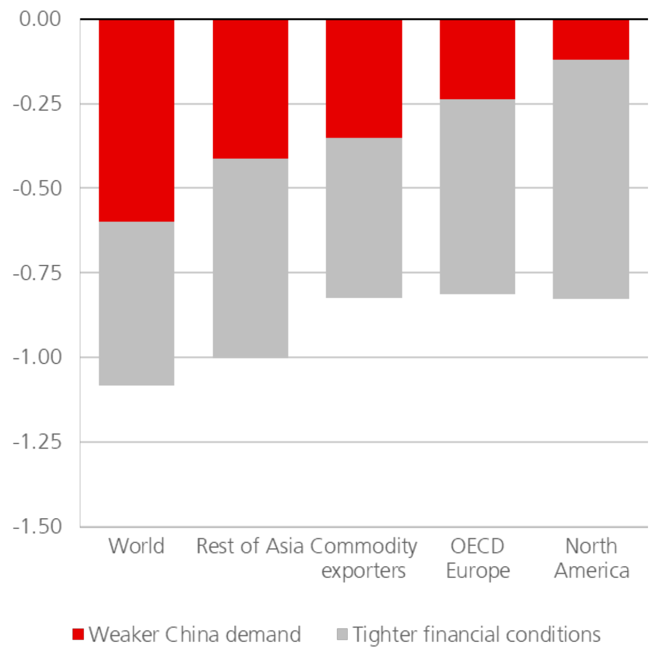
Core inflation remains persistent in many economies

Core inflation y/y (%)



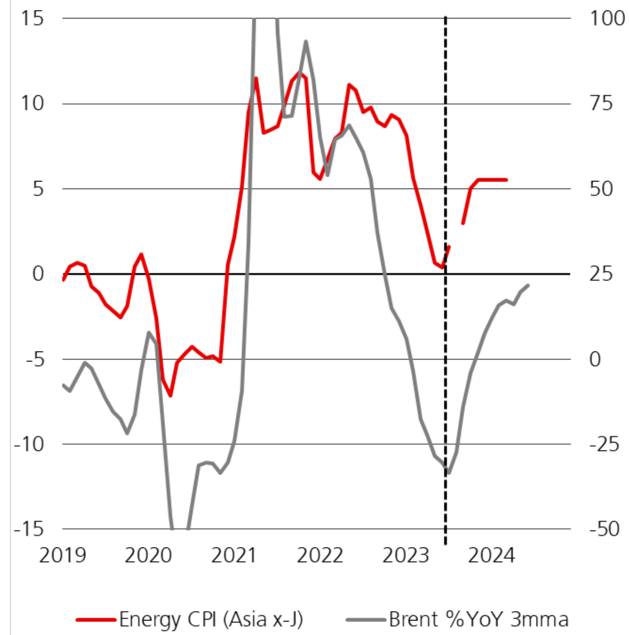
A further weakening in China would hurt the global economy

Simulated GDP impact in first year due to a slowdown in China and tighter financial conditions, % difference from baseline



Supply shocks in energy markets could put upward pressure on prices and inflation

Energy CPI % y/y (LHS), Brent % y/y (RHS)



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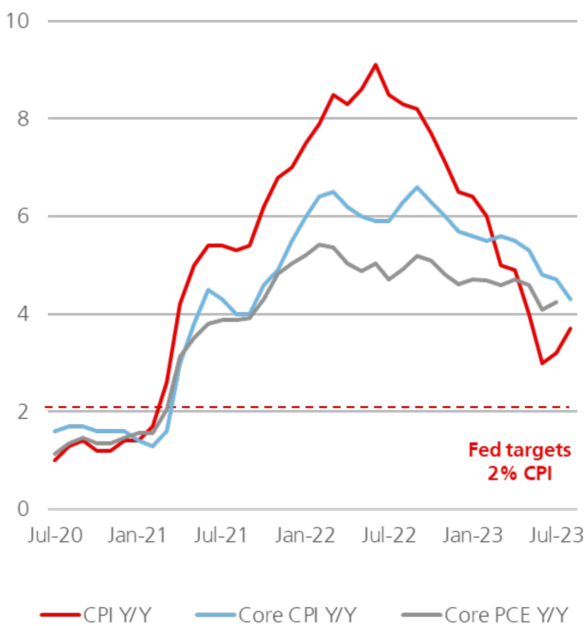
Signs of a soft landing emerge as the US economy remains resilient

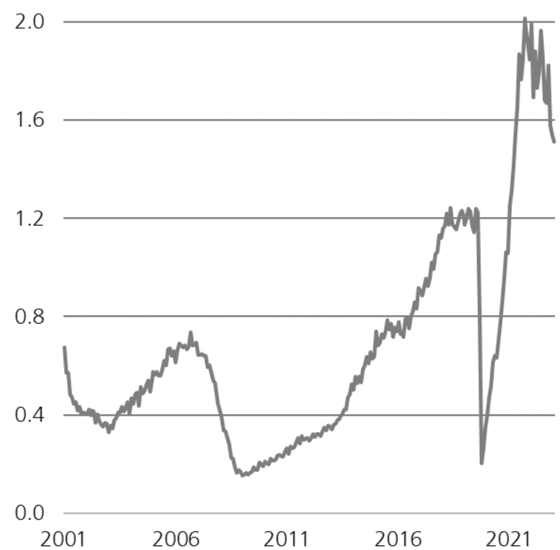
Inflation easing but remains sticky

US headline and core CPI, % y/y



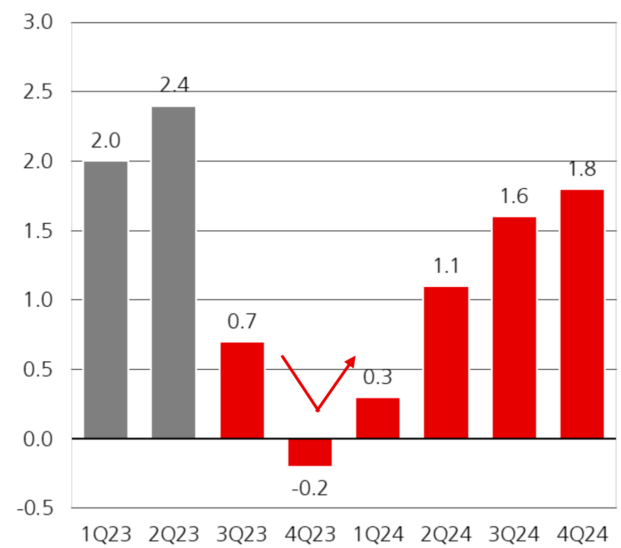
US labour market is showing signs of cooling

US jobs opening to unemployed, ratio



US economy stays strong despite higher interest rates

Bloomberg consensus GDP estimate % q/q



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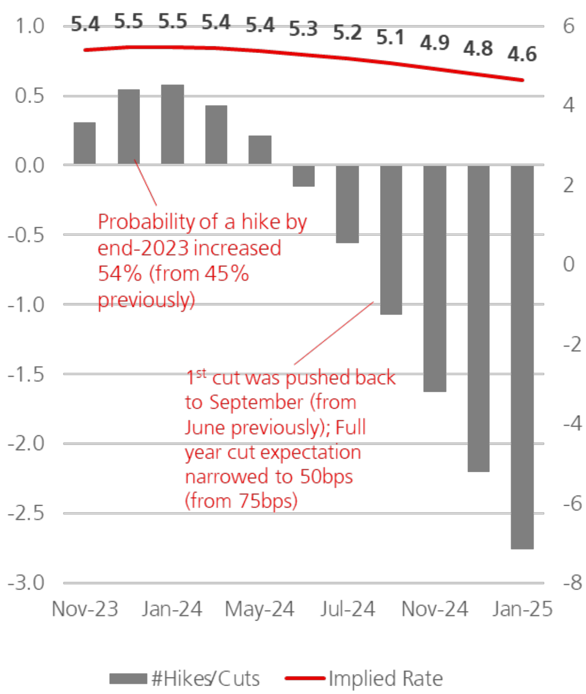
Interest rates are likely to stay higher for longer

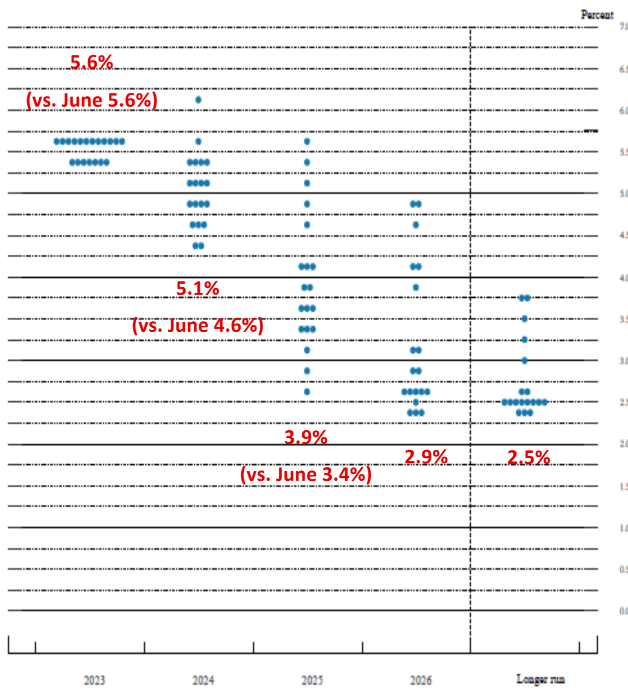
A hawkish hold by the Fed

US fed fund futures implied rates (%) and hikes/cuts



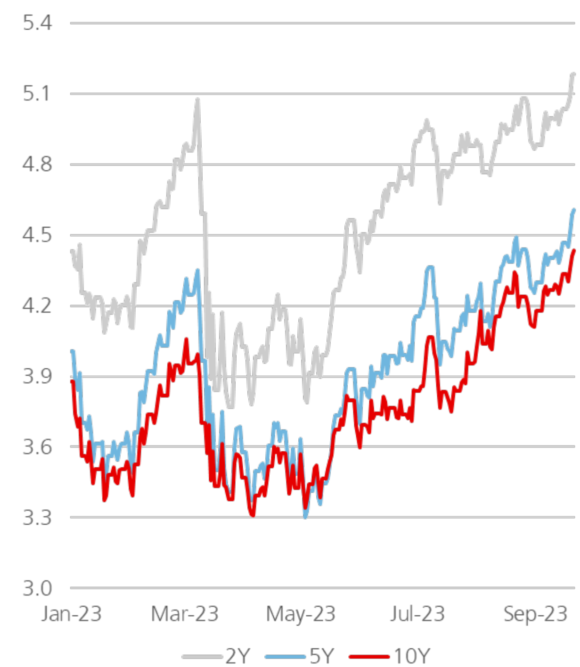
A likely soft landing supports higher for longer

Dot plot: Terminal rates for 2024 and 2025 were moved up by 50bps



US Treasury yields edged up along with the stronger-than-expected economy

Movements in the US Treasury yields YTD



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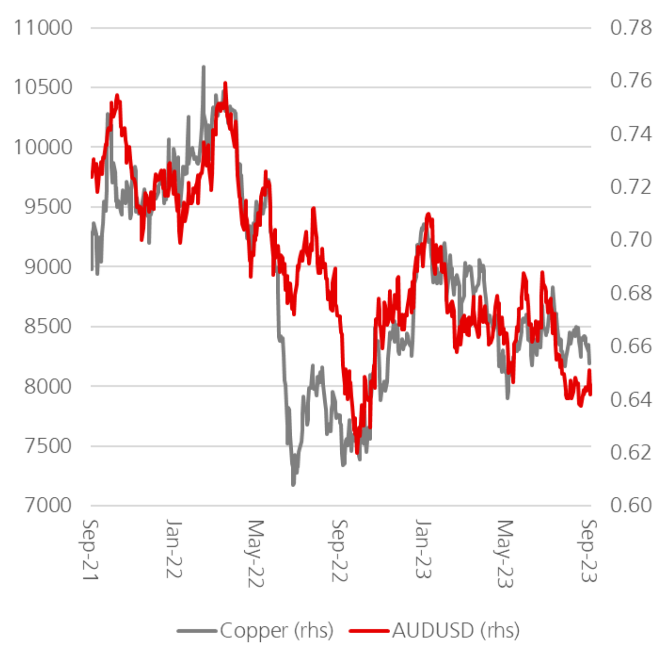
Broad US dollar weakness should return in 2024

Upside risks to the US dollar in the short term….

In %, TIPS (lhs), DXY (rhs)

…but commodity currencies like the AUD should benefit from a higher metal prices ahead

In AUDUSD terms, copper in USD per metric ton



UBS G10 forecasts to mid-2024

FX pair	Spot	Dec 23"	Jun 24"
EURUSD	1.07	1.12	1.16
USDJPY	148	142	138
GBPUSD	1.24	1.29	1.35
USDCHF	0.90	0.87	0.84
USDCAD	1.34	1.32	1.30
AUDUSD	0.65	0.66	0.70
NZDUSD	0.59	0.60	0.62
USDSEK	11.11	10.71	10.17
USDNOK	10.76	10.27	9.48

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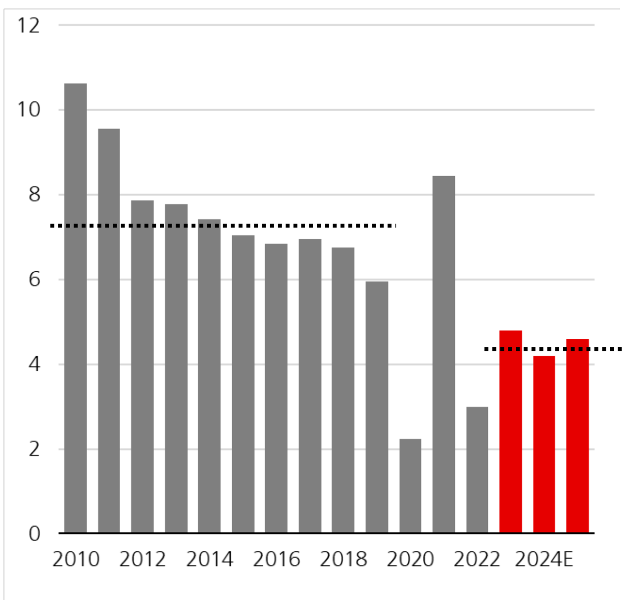
While economists trimmed China's growth forecasts…

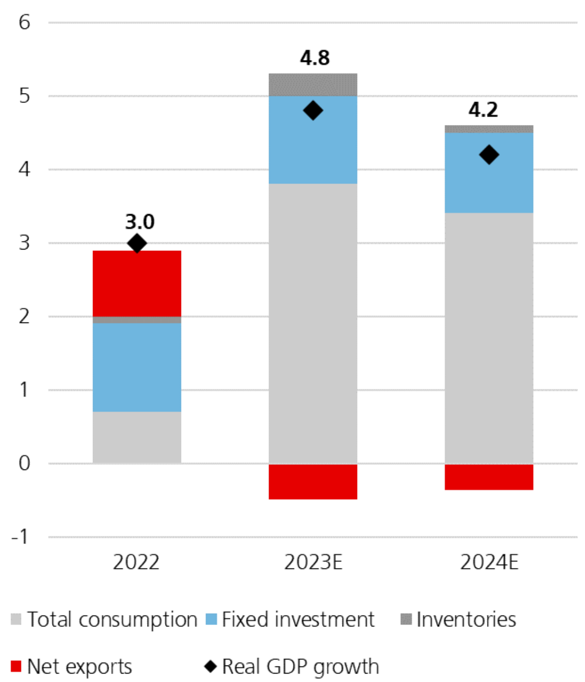
GDP growth to bottom in 3Q23 and rebound in 4Q23, but longer-term growth is lower

Real GDP growth, y/y change, including UBS forecasts



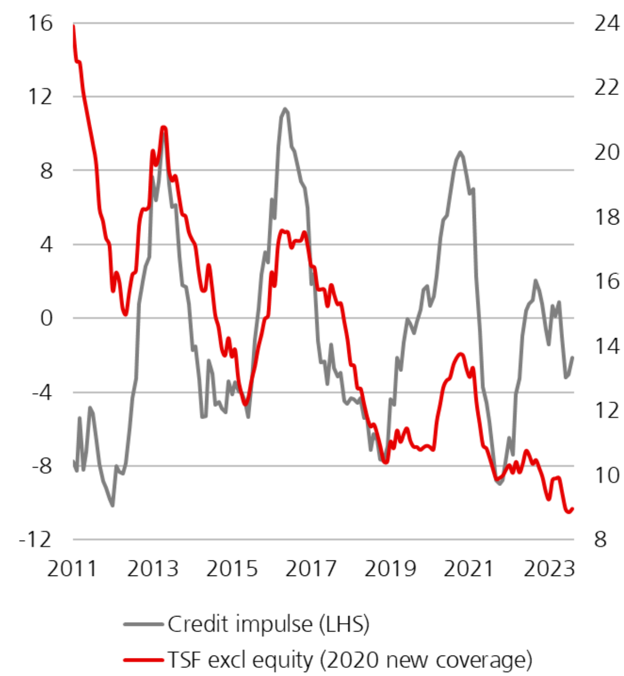
Consumption is a key driver of GDP going forward

Real GDP growth by contribution



Credit growth ticked higher in August and is expected to pick up

Share of GDP % (LHS), Growth % y/y (RHS)



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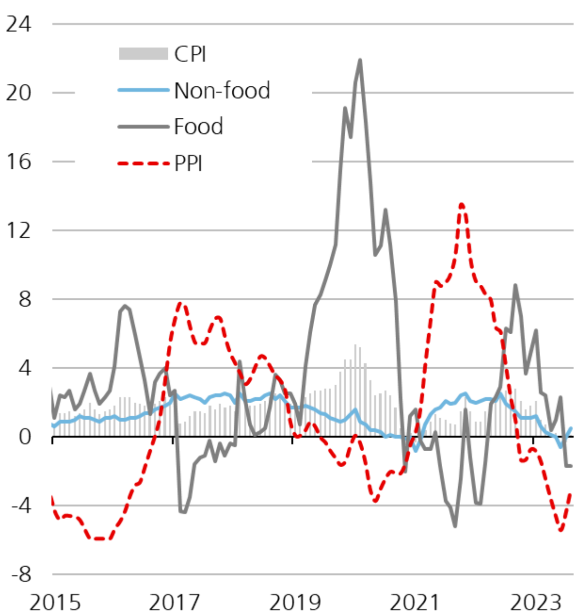
… the Chinese economy is showing signs of stabilization on recent policy boost

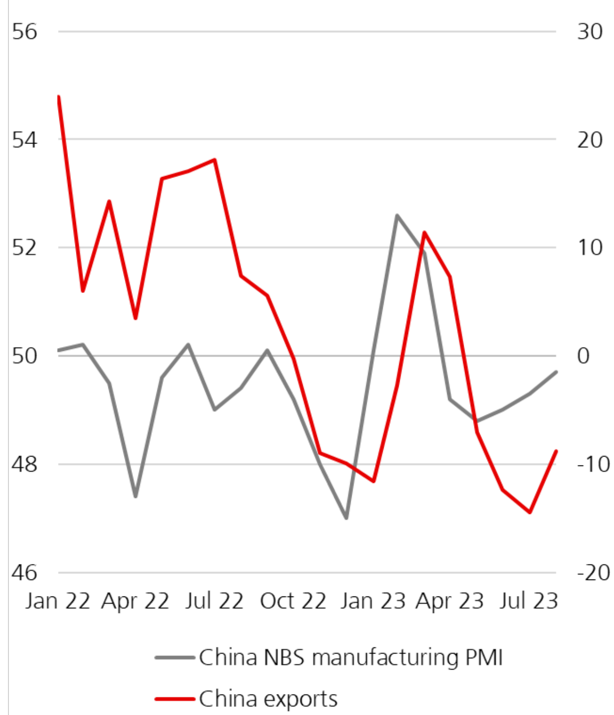
CPI to edge up modestly going forward

Real GDP growth, y/y change, %, including UBS forecasts



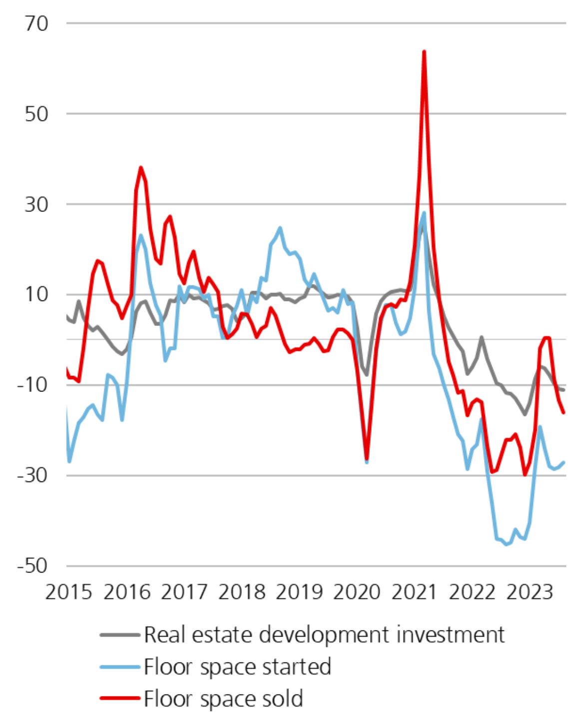
Factory activity and exports pick up

NBS manufacturing PMI (LHS), Exports % y/y change (RHS)



Property activity seem to be bottoming

Growth rate, % y/y 3mma



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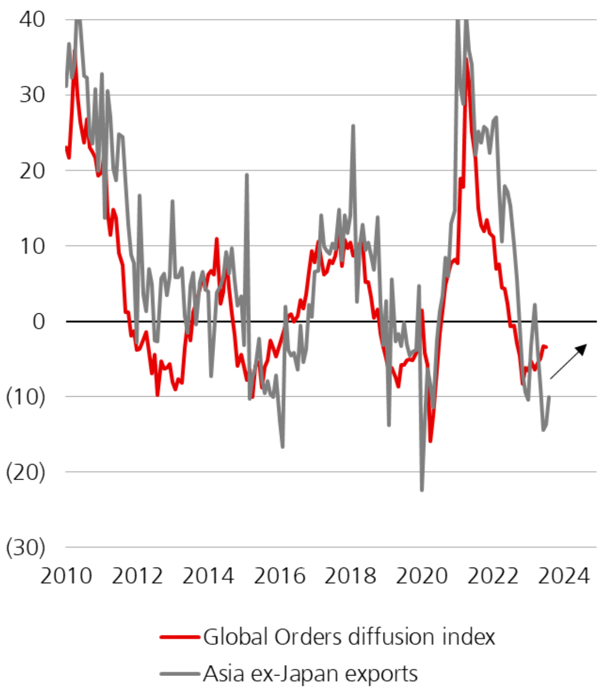
Macro indicators are pointing to an upturn in the industrial cycle

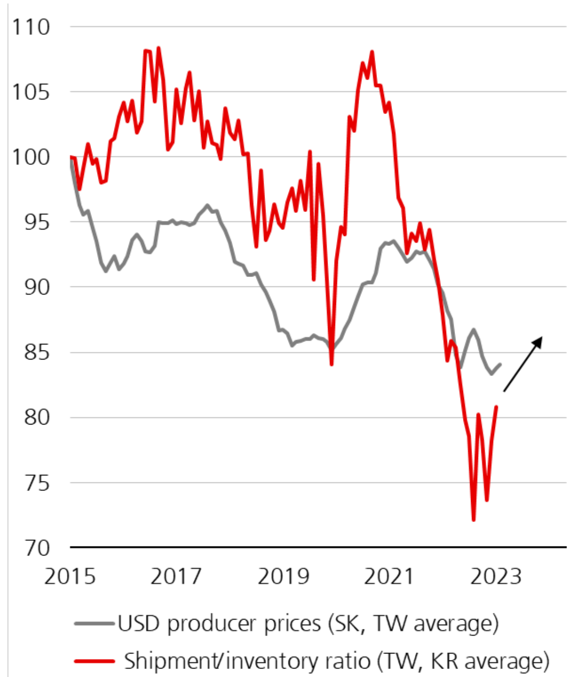
Export orders are slowly normalizing

Actual machinery/mfg orders for US, JP, GE, CH (PMI new orders), % y/y



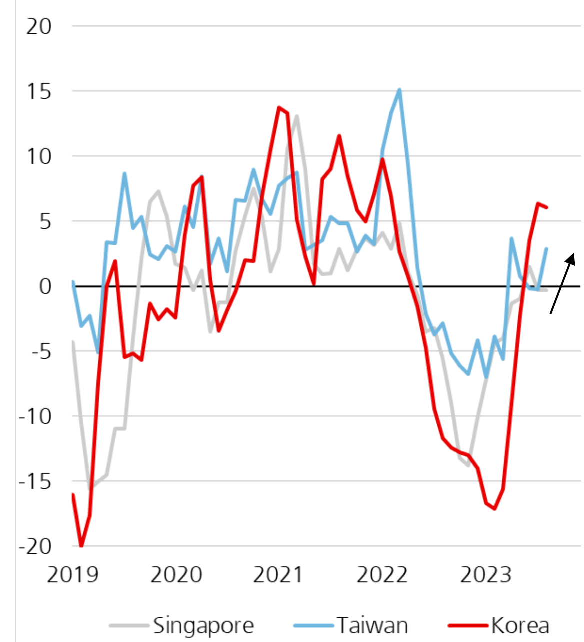
Inventories have peaked and industrial pricing should strengthen from here

Index for all industry in SK, TW



Tech exports recovering well as fundamentals are improving

Electronic exports ($ s.a.) % 3m/3m



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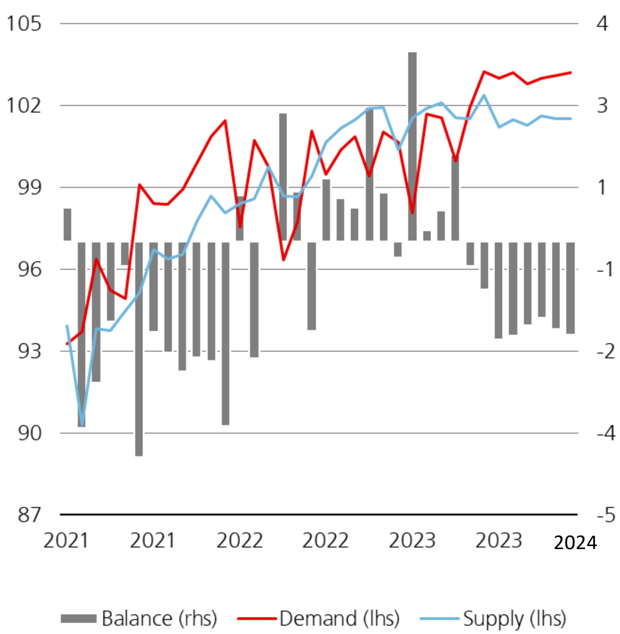
Crude oil prices to stay elevated

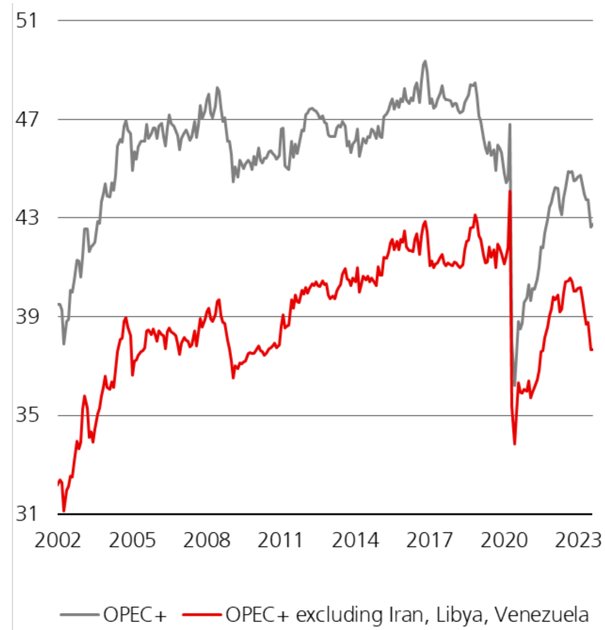
We see the oil market in a deficit into 2024

Values in million barrels per day



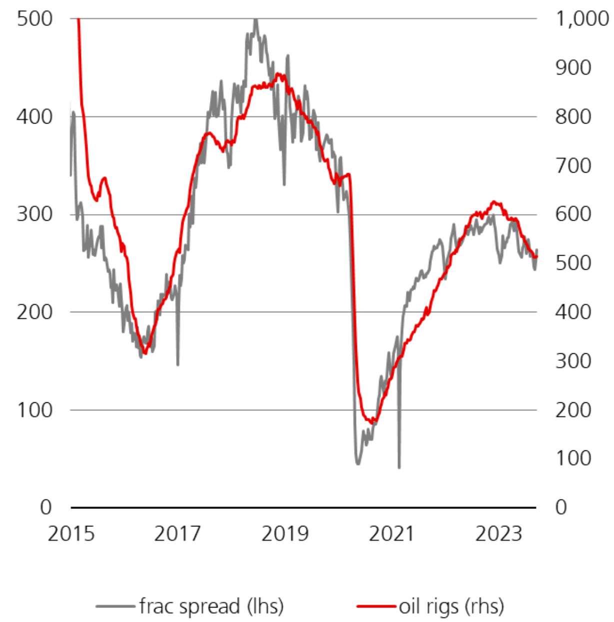
OPEC+ countries implementing voluntary production cuts tightened markets

Values in million barrels per day



Drilling activity in the US suggest a slowdown in US crude production growth

Higher prices have not yet translated in higher drilling activity



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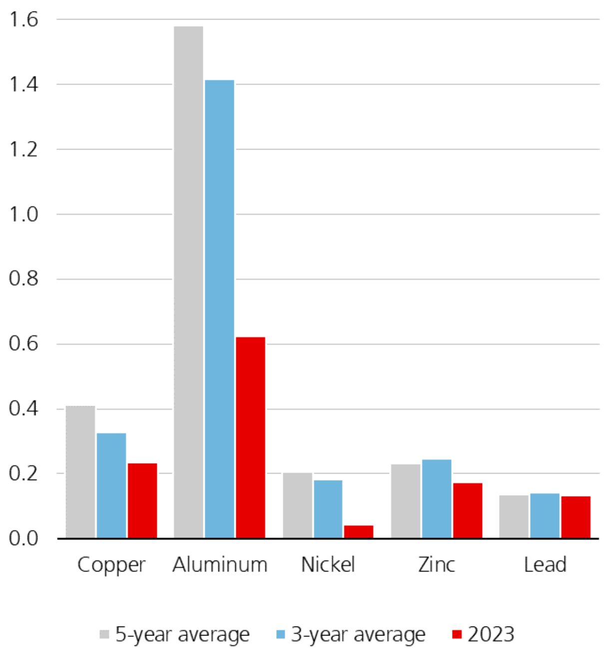
2024 is the year for industrial metals

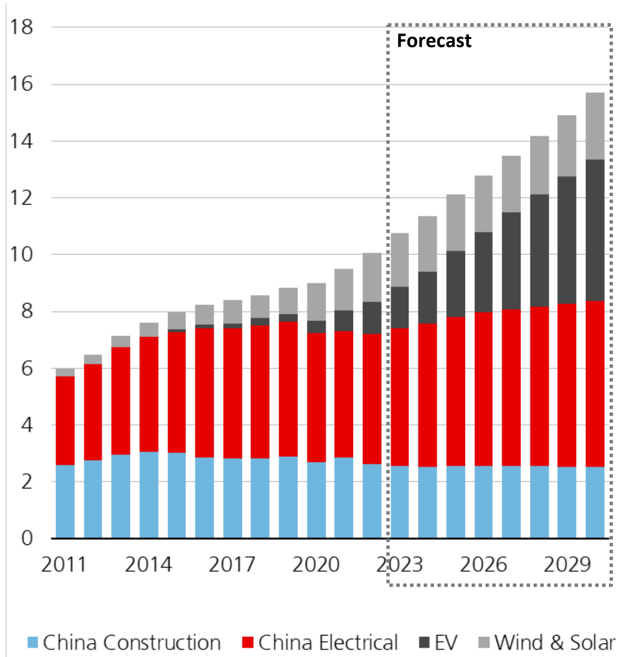
Metal inventories remain structurally low and likely remain so in 2024

In million metric tons



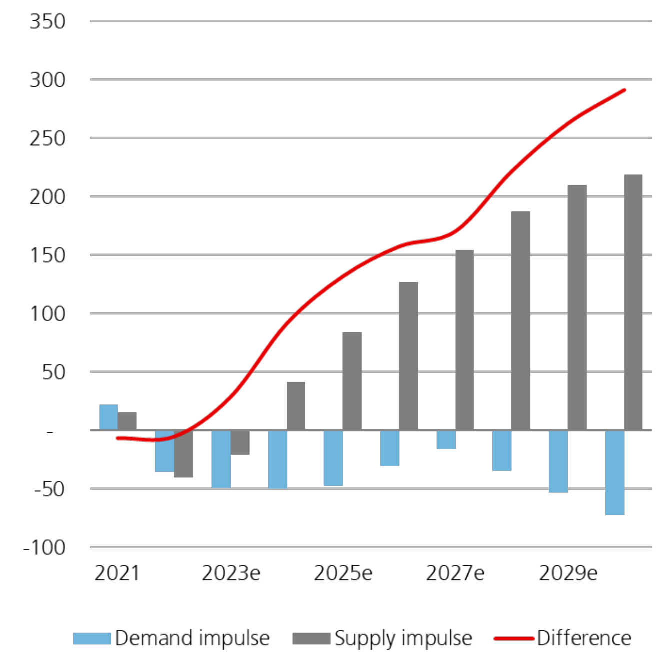
Copper demand in China for renewables will surpass construction in 2025

In million metric tons



Iron ore moves in structural surplus in 2024

In million metric tons



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Summary: What lies ahead

Important turning points at different stages

- Industrial recovery
- Interest rate cuts
- USD step down
- Bonds finally performing
- Dispersion in equity returns
- Commodities stay well bid

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