The Year Ahead 2024

Navigating inflation, policy, and politics in a more divergent world

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Welcome to the Year Ahead

John Briggs
Global Head of Economics and Markets Strategy

Navigating inflation, policy, and politics in a more divergent world

It almost goes without saying that 2023 was a challenging year for investors, businesses, and policymakers alike. Stubborn inflation combined with unexpected growth resilience to force central banks to raise interest rates to greater heights than many expected, which in turn led to heightened volatility, rising borrowing costs, and unpredictable gyrations across asset classes.

In 2024, we expect growth to slow and central banks to gradually shift to easing. But the timing and speed of policy rate cuts (and in Japan's case, policy hikes) will likely be the principal driver of markets. Looking further ahead, we see a backdrop of lower long-term growth and a more inflation-prone global economy, which together imply a greater likelihood of higher interest rates for longer. So, while we look closely at the nuances that will drive the next monetary policy cycles across the globe, we also need to consider the destination for both central banks and economies – and what the "new normal" more broadly looks like.

Influencing all of these is politics. The world is increasingly volatile, and we see ongoing tensions and conflicts contributing to increased geopolitical uncertainty in 2024. The continued regionalisation of trade relations, rising protectionism and deglobalisation, and an ongoing "cold war" between the US and China are dramatically reshaping global supply chains. And with more than 40 national elections in the year ahead – including in globally and regionally significant countries like the US, UK, Taiwan, India, Mexico, and South Africa – we see a growing risk of big shifts in momentum behind domestic policy priorities as well as crucial global efforts, like the battle against climate change.

In light of these issues, we focus on five key themes in our Year Ahead 2024:

1. The 20s economy: hardly soaring, yet far from boring
2. Climbing down from the peak: what to expect from central banks in 2024
3. The Year of the Ballot Box: how key elections could hold huge sway over the outlook
4. What China's decoupling from the world economy means for markets
5. Will climate policy gain or lose momentum in 2024?

Volatility and uncertainty in a diverging world can be daunting. Our hope is that, by shedding light on the big themes and events moving markets and shaping the economy in the months and years to come, we leave you better prepared to seize opportunities and minimise risks.

We hope you find this report insightful and look forward to working with you as a partner to understand, analyse, and thrive in the years ahead.

John Briggs

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The 20s economy: hardly soaring, yet far from boring

The 2020s got off to anything but a roaring start, with a pandemic and unprecedented lockdowns inflicting lasting damage on economies around the world and creating an unhealthy dependency on lax monetary and fiscal policies.

Following these events, we expect significantly slower economic growth over the coming years.

What's in store for the economy in 2024?

Low and slow growth

The US economy looks set to hold up best, but the UK is facing serious headwinds - with Europe somewhere in between.

Stubborn inflation

Domestic price pressures are likely to remain higher than before the pandemic.

Protectionism 2.0

Trade patterns are shifting in response to the pandemic, geopolitical frictions and more activist industrial policy.

Source: NatWest

Ross Walker
Head of Global Economics/ Chief UK Economist

Giovanni Zanni
Chief Euro Area Economist

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Chief US Economist

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European Economist

Deepika Dayal
US Economist

Our key economic views at a glance

- **UK:** We expect significantly lower growth of around 1.0%. Data from the Office for National Statistics (ONS) suggests that productivity growth has slowed sharply from around 0.75% per year in the decade after the global financial crisis and around 2% during the so-called Great Moderation (the decade from 1998 to 2007) to 0.5% per year.
- **Eurozone:** While facing the same headwinds, the region may experience a less marked deterioration, with its trend GDP growth falling to around 1.25%, according to Eurostat – only slightly below its level in the 2010s. The region's labour market is finally catching up with those of the US and UK, but productivity is still well behind the US.
- **US:** Growth is likely to fall, primarily due to the labour force growing more slowly than in previous years. We forecast trend GDP growth in the US of around 1.8% over the coming years, primarily due to annual productivity gains of around 1.5%, according to the Bureau of Labor Statistics.

For any terms used, please refer to this glossary

Real GDP growth, annual averages (%)

	Great Moderation 1998-2007	Post-GFC / pre-C19 2010-2019	NW forecasts 2023-25	NW estimate of current trend GDP
US	3.1	2.4	1.6	1¾
Euro Area	2.6	1.5	0.9	1¼
UK	2.8	2.0	0.3	1

Source: NatWest, Datastream

Higher underlying inflation pressures

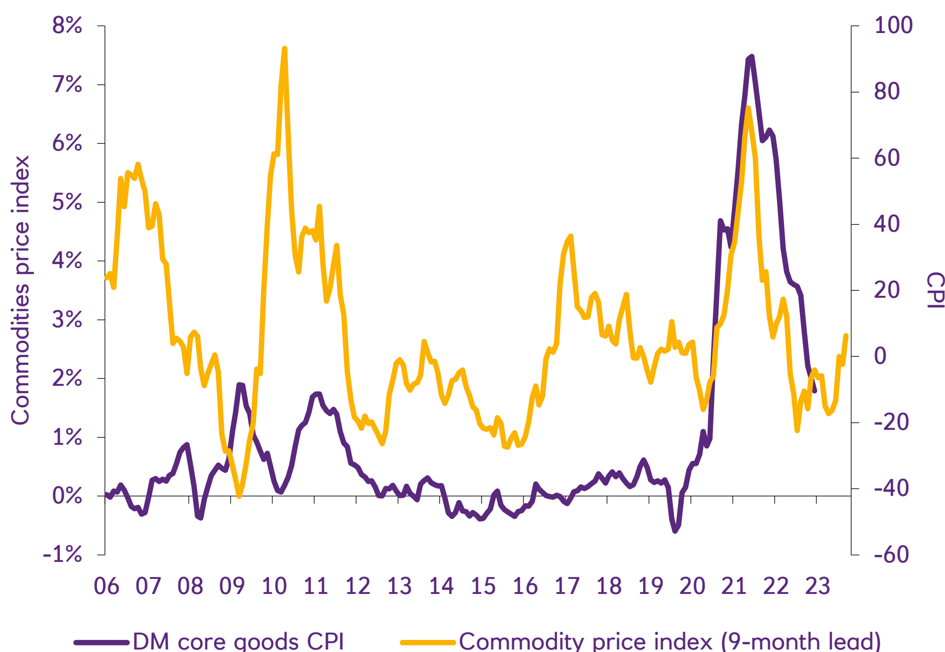
Until recently, keeping inflation under control was relatively easy thanks to global factors such as sustained disinflation in global goods prices during the Great Moderation, and relatively subdued domestic demand during the years of austerity.

But global disinflation looks unlikely in the coming years , in what's likely to be a more protectionist environment, with more stringent regulation (including green initiatives) and increasing onshoring and nearshoring. Domestic price pressures are also likely to remain persistently higher than before the pandemic.

"Global disinflation looks unlikely in the coming years."

In the US, for example, imported and domestically generated inflation have averaged 5.5% since the pandemic, according to the BLS. With the drivers of the run-up in imported inflation in recent years dissipating, the focus of those looking to tame US inflation will move to the labour market, where a sustained correction of imbalances will be needed to drive wage growth down.

Global goods inflation (% year-on-year)
Source: NatWest, IMF, Haver



Meanwhile, having surpassed 10% at the end of 2022, eurozone inflation has dropped rapidly over the course of 2023 and in October it returned to 2% for the first time in more than two years, according to Eurostat. We expect inflation in the region to return to target around mid-2024. Factors such as protectionism are likely to keep underlying inflationary pressures higher in the euro area than they have been until recently, as will a more accommodative fiscal policy. But given inflation persistently undershot its 2% target before the pandemic, this might provide some benefits in Europe's case.

Protectionism and fragmentation

Perhaps the biggest overarching theme for the 2020s economy is the return of protectionism. Trade patterns are shifting in response to the pandemic, geopolitical frictions, and more active industrial policy. Global trade volumes monitored by the International Monetary Fund (IMF) have faltered, with trade growth having slowed from an average of 5.9% per year during the Great Moderation and a still-respectable 3.6% in the post-global financial crisis / pre-pandemic period to a contraction of 3.2% over the past year.

Geopolitical and security considerations are the main drivers of rising barriers to trade in areas such as semiconductors. A new 'green protectionism' is also on the rise, with countries dishing out subsidies under the veil of accelerating the green transition – the Inflation Reduction Act in the US being the prime example. Industrial policies are being reformulated to strengthen supply chains through trends such as reshoring and nearshoring. And while tariffs have remained low, the number of trade interventions in the form of non-tariff measures has risen significantly since 2020. Trade concerns raised at World Trade Organization (WTO) committees have increased significantly.

In fact, the WTO has highlighted that trade is becoming increasingly fragmented and that there's a tendency towards regional, rather than global, trading agreements. WTO data suggests the share of intra-regional trade is edging up, most notably in Asia, where it accounted for around 13% of trade during the Great Moderation but around 24% today.

Food protectionism has also made a comeback as governments try to provide relief from rising prices and maintain supplies for their domestic consumers. India, for example, has restricted exports of rice following earlier bans on wheat and sugar. Such actions risk driving up global food prices further, on top of the pressure on prices linked to the war in Ukraine.

"While tariffs have remained low, the number of trade interventions in the form of non-tariff measures has risen significantly since 2020."

Monetary policy: what to expect in 2024

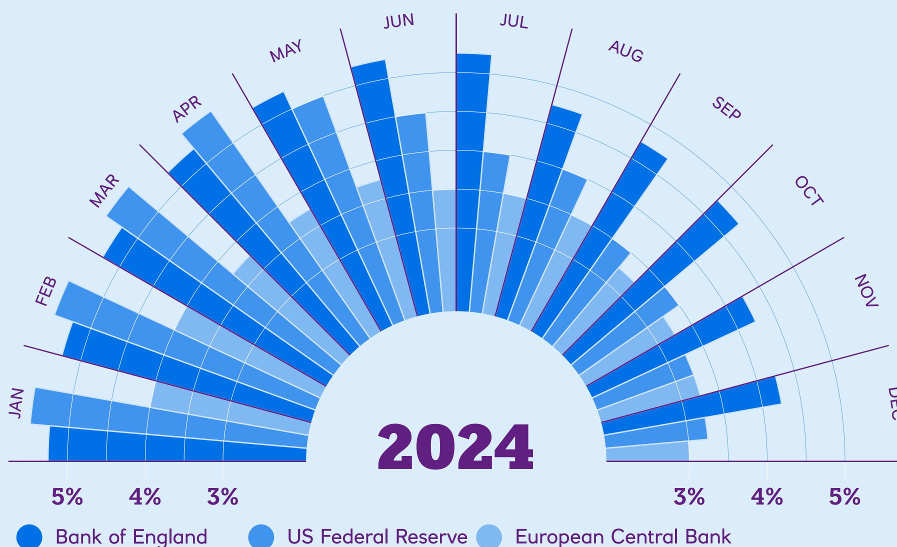
The speed and scope of global tightening was THE big macro theme in 2023, in some cases taking the market by surprise. But what can we expect from global central banks next year, and how might investors position themselves to both benefit and minimise risk?

Brian Daingerfield
Head of G10 FX Strategy, US

In hindsight, what characterised 2023 were markets underestimating both the resilience of the labour market and the persistence of high inflation – and with it, the scale and pace of interest rate hikes. Near the end of 2023, markets are now pricing in central bank easing over the coming year, but in many cases not by much. That's a surprise because economic outlooks, inflationary pressures and policy objectives are hardly uniform around the world. Identifying where rate expectations are most vulnerable to market repricing is a key theme for 2024.

"Identifying where rate expectations are most vulnerable to market repricing is a key theme for 2024."

What we expect from global central banks in 2024



Source: NatWest

Slower growth and converging inflation in major developed economies

We believe that core inflation will converge towards central bank target levels next year, undershooting both market expectations and central bank signalling in the process. We also expect economic growth to be lower than current consensus expectations in 2024. As a result, we think that the US, eurozone and UK central banks will cut rates by more than the market is currently pricing in.

The major exception is Japan. While in much of the world, central banks are set to ease policy, we believe that Japan is about to embark upon a tightening cycle, with the Bank of Japan set to phase out its yield curve control policy and by April end the era of negative interest rates. Japanese tightening at a time when most other countries are easing policy should provide a boost to the yen relative to other currencies next year.

Monetary policy in 2024: Four key takeaways

Monetary policy was an important driver of global markets in 2023, and we expect it to remain so in 2024. With that in mind, here are our four top takeaways for investors.

1. The European Central Bank (ECB) to cut rates first, but the Fed to cut by more

Early cuts may cause European yields to fall earlier than those in the US and lead to the tightening of bond spreads in the peripheral eurozone. But we believe yield differentials will narrow as the year progresses: we expect the Fed to cut rates by 225bp, but the ECB by just 100bp.

2. Up then down for the US dollar

The US dollar should receive support from interest rate differentials until the Fed begins its easing cycle. So, we expect it to perform strongly at the start of 2024 but weaken from Q2, when we believe the Fed will start to ease. We think the Fed cuts a lot more than they are currently projecting, which is potentially significant for the USD.

3. Sterling to outperform the euro in the near term

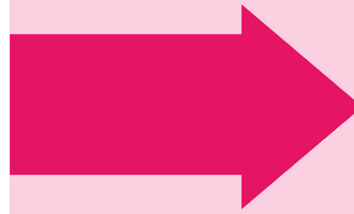
Our inflation forecasts suggest that the ECB will have more scope to cut rates sooner than the Bank of England (BoE), despite weaker economic growth in the UK. The euro could weaken against sterling if the ECB is indeed the first major central bank to cut rates, but sterling could suffer if the BoE cuts rates aggressively later in the year.

4. Steepening yield curves may present opportunity

Slowing economic growth and rate cuts could lead to lower short-term interest rates. But government deficits and supply / demand issues for long-term bonds may mean long-term bonds yields stay sticky even as front-end yields fall. That dynamic would result in a steepening of the yield curve in the US, UK, and the eurozone next year. This could make steepening trades, which involve buying short-term bonds and selling longer-term issues, popular in 2024.

"We think that the US, eurozone and UK central banks will cut rates by more than the market is currently pricing in. The major exception is Japan."

The Year of the Ballot Box: how might elections sway policy?

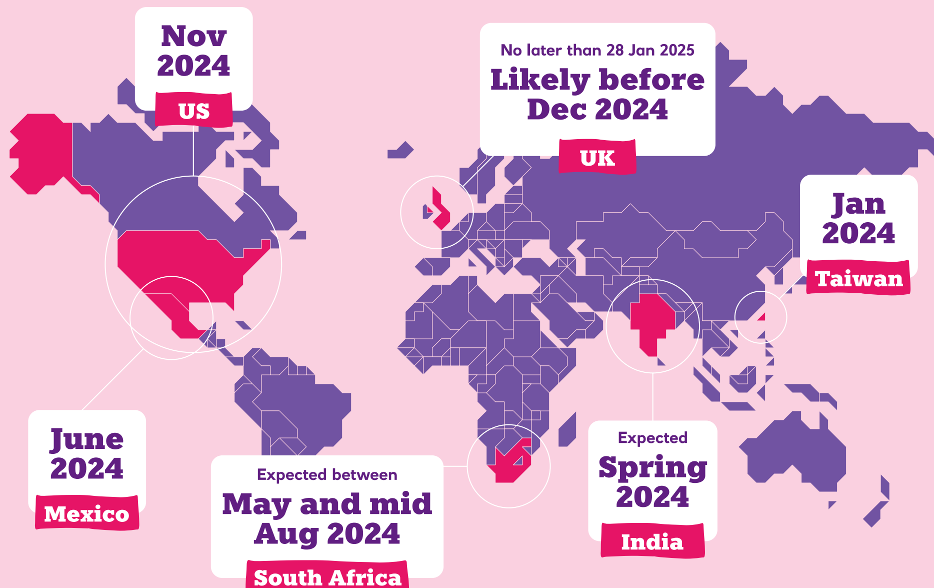


In a world threatened by climate change and geopolitical conflict, who's making the decisions in individual countries can have major implications globally.

John Briggs
Global Head of Economics and Markets Strategy

The year ahead is set to be a busy, significant year in terms of government elections. As well as the US and UK, votes are due to take place in the world's biggest democracy, India, and in geopolitically significant countries such as Taiwan, Mexico and South Africa. Given its tense relationship with China, what happens in Taiwan is pertinent from a geopolitical perspective but, as we've seen in recent years, flashpoints can arise anywhere in the world.

Key elections to watch in 2024



Source: NatWest

Let's run through what could happen in the US and UK elections.

The US: Biden vs Trump, round 2

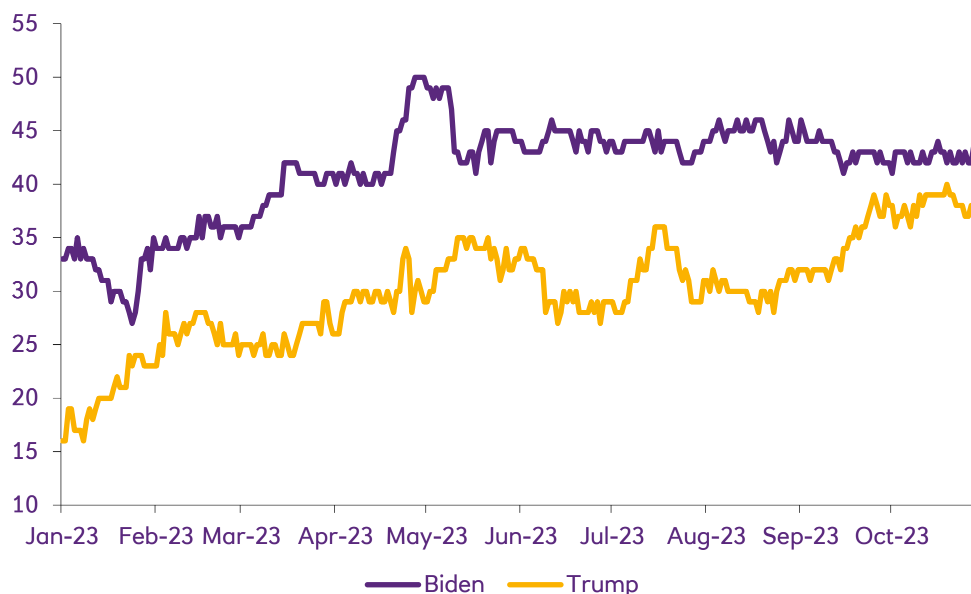
Control of the Presidency, the House of Representatives and the Senate are up for grabs in 2024. Most eyes, of course, will be on the presidential race, and as things stand the likeliest candidates are incumbent president Joe Biden for the Democrats and former president Donald Trump for the Republicans.

Who's likeliest to win? It's worth noting that neither is a popular choice – both have approval ratings of 41% at the time of writing. Perhaps unsurprisingly, the signs so far are that it's going to be a close

race: Real Clear Politics has Trump ahead by 1%, while PredictIt has Biden ahead by 6%. Of course, these are very early days, and it's too soon to rush to any judgments.

The 2024 US General Election: Trump vs. Biden (% approval rating)

Source: NatWest, Predict.org, Bloomberg



As ever, the state of the economy is likely to be a major factor in voting decisions: in a recent poll by National Public Radio (NPR), 65% of respondents stated that inflation is "a very big problem" in the US. This represents a clear risk for President Biden as the incumbent generally receives the blame for any economic problems. While we expect inflation to fall further in 2024, any economic slowdown – including due to the lagged impact of Fed rate hikes – is likely to worry the President.

But it's not just about the presidency. The races for the House and the Senate are also important as their outcome influences whether the President can implement his plans.

It seems that the Republicans hold a clear advantage in the Senate vote. The Democrats currently have a slim majority, with 51 against 49 Republicans, so it wouldn't take much of a swing for the Republicans to turn that around. As things stand, we believe that's the likeliest outcome. Meanwhile, the race for the House of Representatives looks to be a toss-up. Regardless of the presidential outcome, a Republican Senate flip would mean there would be no Democratic sweep, so even if President Biden won a second term there would be mixed government, and probably gridlock when it comes to passing major legislation.

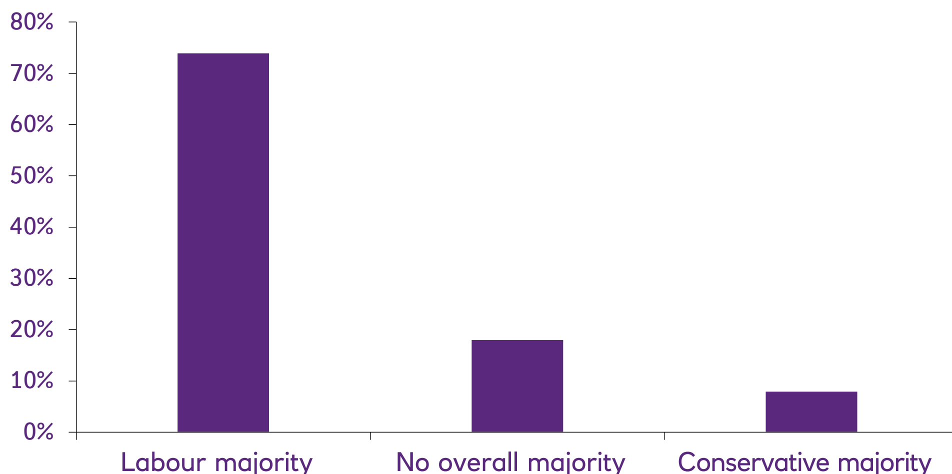
What does all this mean for the policy outlook? The main issue for the next Congress and Administration will be the "Trump tax cuts" from 2017, which are set to expire in 2025. It's been estimated that extending them would cost more than $3.3trn through 2033. The implications are potentially significant, both for investors and for companies due to the impact on long-term funding rates. Foreign policy is also an important consideration, with questions about America's role in the world under the two candidates. But we'd be surprised if there are any major changes to the US approach to Ukraine or Israel regardless of who wins, and another similarity is that both major parties see China as a rival.

The UK: a good chance of a swing towards Labour

Unlike in the US, the date of the next UK general election is still to be decided, but the likeliest time is September or October 2024.

The polls are signalling a change of government is highly likely, with the opposition Labour Party in a huge lead – current projections are for a Labour majority in Parliament, although the race could tighten as the vote approaches. Even if Labour fails to secure a majority, it would have a good chance of forming a government through a coalition with smaller parties.

UK election outcomes, implied probabilities from betting markets (%)
Source: NatWest, Betfair



While there are policy differences between the main parties, the UK's fiscal situation is likely to prevent any major spending. What's more, Labour is committed to adhering to the ruling Conservatives' existing fiscal rule that public sector debt as a share of GDP should fall to below 3%.

The risk of tax rises is greater under a Labour government, but the party has indicated that it would not raise income tax or the main rates of VAT (a consumption tax) or impose a new wealth tax. Instead, it would end private schools' exemption from VAT, reform non-domiciled tax rules, apply a stamp duty surcharge to overseas house buyers and impose a 'proper' windfall tax on energy companies. Most of these policies are only vaguely defined at this stage, but they give a sense of Labour's approach.

Labour has also signalled a desire for a closer trading relationship with the EU, albeit one that would fall short of EU single market or customs union membership. This raises the question of what concessions the EU would be prepared to make.

What can we expect from elections elsewhere?

Taiwan

A Democratic Progressive Party (DPP) presidency looks likely, with current vice-president William Lai the favoured candidate. The potential for a united opposition ticket between the Taiwan People's Party (TPP) and the Kuomintang (KMT) would make the election much closer. China has signalled its preference for a KMT presidency: the most positive outcome for cross-Strait relations and markets.

India

The Bharatiya Janata Party (BJP) is likely to retain power in 2024 – an outcome that markets appear to have priced in. Fiscal expenditure might increase as a result of campaigning: state governments made new announcements ahead of this November's state elections, and this may be replicated in the general elections as parties try to outdo each other's plans.

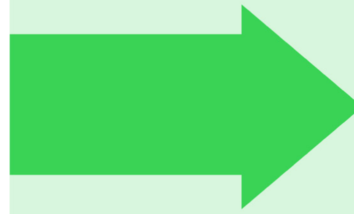
Mexico

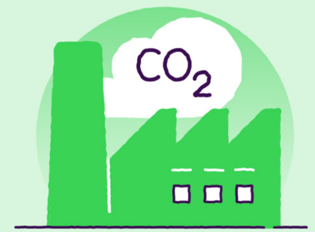
This will be a historic presidential election in Mexico as the two leading candidates are women, leading to the country's first female president. The candidate for the governing coalition, Claudia Sheinbaum, leads the polls with around 50% support, vs 20% for the opposition. Therefore, we expect a continuation of the current complex policy mix: some fiscal restraint; nationalist and domestically-focused policies (especially around energy); a poor environmental record; and, greater pressure on certain institutions (excluding the firmly independent central bank).

South Africa

For the first time since the end of apartheid, opinion polls suggest that the ruling African National Congress (ANC) could lose its majority. An agreement between opposition parties sets the stage for extreme election outcomes. An ANC coalition with the Economic Freedom Fighters (EFF) would push the country to the economic far left, and under China and Russia's geopolitical influence. In contrast, a government led by the main opposition Democratic Alliance (DA) would pull South Africa back to the centre-right and immediately build ties with the West.

Could the race to net zero lose steam in 2024?





With 2023 set to be the hottest year on record, the urgency to tackle climate change has never been clearer.

But as governments continue to grapple with a challenging economic backdrop – one that looks set to continue for some time yet – many are concerned that the net-zero transition risks losing momentum in the year ahead.

Alvaro Vivanco
Head of EM and ESG Macro Strategy

Four big questions for global climate policy in 2024

1. Is the US policy backdrop sustainable?

Sustainability investments have increased significantly in the US as policy has turned more supportive, but that could all change with a new administration.

2. Can capacity be scaled up in Europe?

Europe has made steady progress against its emissions goals but scaling its manufacturing capacity, and strengthening competitiveness and energy security, will be key.

3. Will China wean itself off coal?

China has made strides in setting ambitious climate targets and promoting cleaner technologies, but its reliance on coal is a clear barrier.

4. Will India's Investment in net zero accelerate

India is a leader in renewable energy but delivering additional environmental support for sectors such as steel and cement will be essential in the years ahead.

Source: NatWest

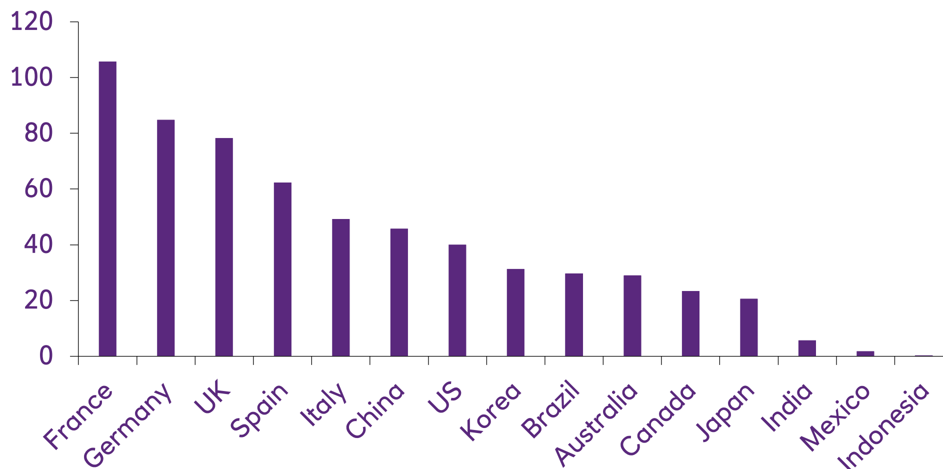
While global emissions continue to rise, the energy transition has made substantial progress in recent years. Renewable energy output continues to rise rapidly, particularly in China, and one in five new cars sold globally is now electric, compared with just one in 25 in 2020, according to the International Energy Agency (IEA). Data from BloombergNEF suggests that investment in the energy transition increased by more than a third in 2022 to over $1trn, almost half of which was by China. The US is in a distant second place, but President Biden's legislation to incentivise and subsidise sustainable technologies is starting to bear fruit. Europe has also increased its focus on renewables since Russia's invasion of Ukraine.

Reasons to be optimistic

As well as absolute levels, an interesting metric to gauge investment in the energy transition is the level of investment per unit of emission. Europe leads the way by this measure, followed by China according to data from BloombergNEF. India is the clear laggard among the large emitters, with just a fraction of the investment per unit of emissions of Europe or China.

Europe leads the way in sustainable investment per emission, the US and China are improving, while India is a laggard

Source: NatWest, BloomberNEF



"The pace at which China and India transition away from coal, still the main energy source in both countries, will be critical for global decarbo-nisation."

The pace at which China and India transition away from coal, still the main energy source in both countries, will be critical for global decarbonisation. A rough guide is that global investments need to triple to achieve net zero. There are reasons to think this is achievable, but political challenges are a possible stumbling block, particularly as the world grapples with high interest rates and slow growth.

Effective climate policy is one of the most important drivers of the net zero transition. Encouragingly, a survey of public opinion carried out by the **Organisation for Economic Co-operation and Development (OECD)** suggests that support for action to fight climate change is strong even in countries that currently lag behind in terms of the shift to clean energy, such as India and Mexico; support is weaker, however, in some European countries. Nonetheless, this suggests countries can make significant progress on green investments across widely different political and policy contexts. But in the year ahead, big questions remain about the extent to which some of the world's larger emitters will keep pace with the race towards their net zero goals.

Climate policy around the world: four important areas to watch in the year ahead

US: will investments continue?

Reflecting the impact of the Inflation Reduction Act (IRA), new investment in clean energy technology over the past 12 months was up 165% compared with five years ago, and stands at more than $200bn according to the Clean Investment Monitor. But could some of the initiatives be at risk if the political backdrop changes over the next few years?

We believe 2024's elections are unlikely to represent a challenge to the green investments currently under way. Many have been made in Republican-leaning states and the focus on subsidies in the IRA has made the theme appealing across the political spectrum. Pushing against investment incentives in the 2024 election campaign might not be a vote winner.

The future of many of these initiatives is more dependent on bureaucratic processes than ideology or the political balance of power, such as bottlenecks in gaining permits for clean power projects.

EU: do voters want faster decarbonisation?

According to the IEA, the European Union (EU) has made steady progress towards its goal of cutting greenhouse gas emissions by 55% from 1990 levels by 2030, in line with the 2019 European Green Deal. A record 41GW of photovoltaic capacity and 16GW of wind capacity were installed in 2022, as Europe sought to reduce its dependence on fossil fuels from Russia. Renewables now supply 39% of the EU's electricity, says the IEA.

Europe's Green Industrial Plan is designed to reduce dependence on imports of net zero technologies, diversify supply chains and scale up the domestic manufacturing capacity to support the transition. But it remains to be seen how high energy prices, concerns about energy security and extreme weather events affect voter sentiment towards faster decarbonisation.

Coal still a problem in China

As the world's highest emitter, China's ambition to reach peak emissions by 2030 and carbon neutrality by 2060 are critical for the global transition's success. And it has been vigorously developing green and low-carbon industries such as electric vehicles, solar photovoltaics, and offshore wind power; indeed, it now commands a status as one of the world's leading producers across all three.

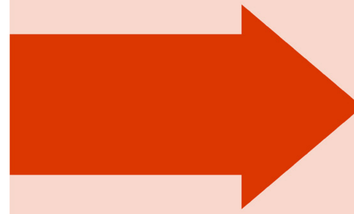
But China's consumption of coal remains a major problem as it still accounts for nearly 70% of the country's total emissions. China's authorities haven't yet committed to a specific target for reducing emissions from coal, probably due to its role in ensuring security of supply. So, while China has set ambitious targets and is promoting cleaner technologies, it has more work to do.

Can India catch up?

India's biggest challenge is to balance its development needs with environmental sustainability. Significant investment and international co-operation will be needed to achieve its net zero target by 2070. It's made some progress: figures from the IEA say its renewable energy accounts for more than 40% of its energy capacity. What's more, the government has announced a slew of measures to promote renewable energy, green hydrogen, energy storage and electric vehicles.

The most glaring issue is that India still lacks a strategy to phase out coal. Under its latest electricity plan it intends to build substantial new coal power capacity between 2027 and 2032. This reasonably raises questions about its ability to meet its net zero targets.

What's next for China in 2024?

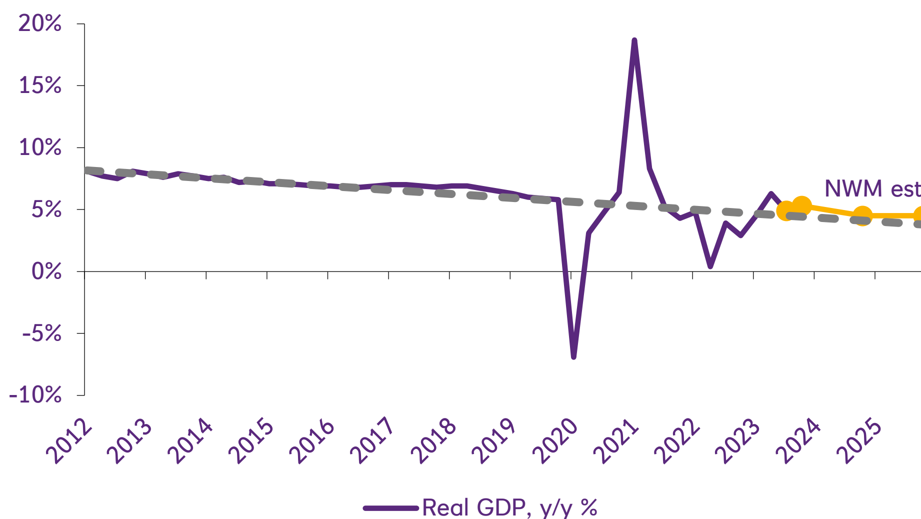


After making a solid start to 2023, the Chinese economy then faced plunging export growth, falling consumption, and weakening of the renminbi.

Galvin Chia
Emerging Markets Strategist

The country is not the driving force of global growth it once was, but it still plays an important role in the global economy. Our forecast is for Chinese real GDP to expand by 4.5% in 2024, down from our expectation of 5.3% growth in 2023. The property sector's problems look set to last well into 2024, although the worst of the contraction in the housing market looks to be over, with concerns about a Japan-style asset price collapse so far not materialising.

Trend growth is slowing; we see 4.5% growth in 2024
Source: NatWest, Haver



Prospects for a (relatively) muted economy

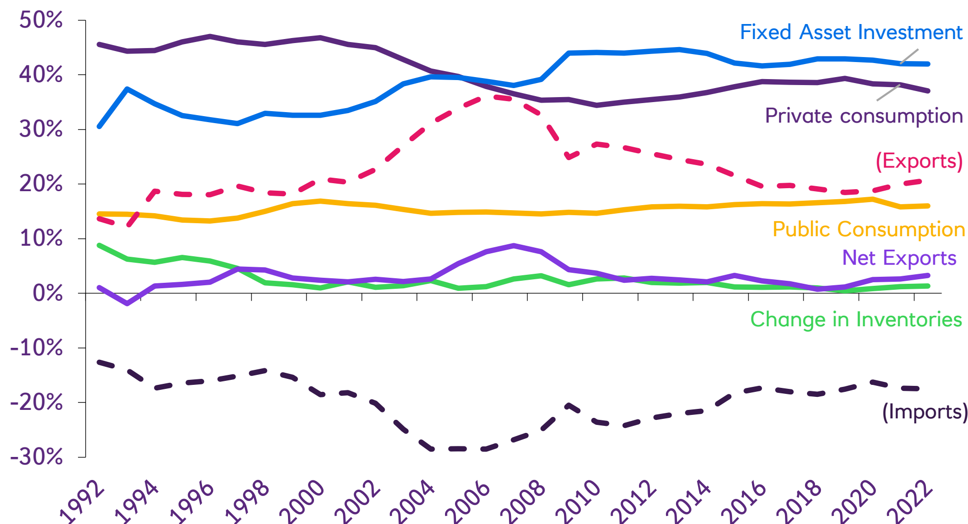
China is still a crucial part of global manufacturing supply chains, and its status as an exporter remains significant. According to IMF data, China's 15% share of global exports is almost 1.7 times that of the US, 2.1 times that of Germany, or 6.5 times that of the UK. Global supply chains have in recent years started to diversify away from China, but only at a very gradual pace, and China's colossal manufacturing exporting capacity looks set to remain important for years to come.

The "new energy" segment in China deserves considerable attention. Areas such as batteries and electric vehicles are among the higher value-added industrial sectors targeted by the government's attempts to upgrade the country's industry, dating back to 2015's "Made in China 2025" policy. These sectors are under increased scrutiny from abroad, with the European Union (EU) beginning to probe Chinese electric vehicle exports and the US introducing the Inflation Reduction Act – not-so-subtle attempts to reduce China's market share in these areas. From the Chinese government's perspective, they will remain high-priority growth sectors: the authorities' aim is for electric vehicles to account for 20% of all new vehicle sales by 2025, for instance.

Waning consumption and shifting fundamentals

The Chinese consumer is unlikely to provide a major boost to the Chinese or global economies in 2024. The current backdrop doesn't look conducive to a boom in consumption – falling property prices are still having a sizeable negative impact on wealth, given that over 60% of household wealth in China is invested in property. Our analysis of the data also highlight that household disposable income growth is lower than the 2015–19 average, while domestic retail sales are now around 10% below the 2010–19 trend. And for the global economy, the weak renminbi isn't particularly encouraging for Chinese tourists to spend overseas, either.

Private consumption's share of GDP is still lower than investment, with no sign yet of a pivot to the consumer
Source: NatWest, Haver



"We think the bar for foreign investors to re-engage with China's markets in 2024 looks high"

Beyond 2024, signs point towards slowing long-term growth in China. That's because the country's growth model is evolving: as its economy grows and becomes more sophisticated, the returns from investments in land, capital and labour diminish. Raising productivity and increasing innovation are more difficult than building factories or bridges, while an ageing society points to a shrinking workforce.

Financial markets: a gloomy outlook unless there's good news

Portfolio flows into Chinese assets have been weak in 2023, failing to respond to a bottoming in the economic data, policy support, positive real yields in bonds or even improvements in US-China relations.

Between January and September 2023, foreign investors pulled out a net $31.7bn from Chinese sovereign bonds – a far cry from the years of almost uninterrupted inflows since tracking began in 2014.

We think the bar for foreign investors to re-engage with China's FX, bond, and equity markets in 2024 looks high as their concerns about the country are likely to linger. Foreign business sentiment has quickly eroded, with surveys in 2023 highlighting the growing challenges of doing business in China. The potential for armed conflict or sanctions-related risk between China and the western world have increased since Russia's invasion of Ukraine. What's more, the US' hawkish stance towards China is likely to continue regardless of who resides in the White House come 2025.

The renminbi's weakness in 2023 has been almost entirely due to external factors rather than developments in the domestic economy, and we believe outside influences will continue to hold sway next year. Much of 2023's weakness has been due to interest rate differentials, so any rebound in the renminbi is likely to require a weaker US dollar. China's current account surplus due to its sizeable exports hasn't supported the renminbi this year, and the currency's prospects are likely to stay closely linked to the US dollar's dynamics (so long as China remains an export-oriented economy that invoices primarily in US dollars).

What might trigger an upturn for Chinese assets in 2023? Some good news is needed. Confirmation that China's growth has bottomed, that stimulus is feeding through into the economy, and less restrictive global financial conditions linked to Fed policy could help trigger such a development. But given the direction of travel in geopolitics, monetary policy and the economy, we're not too optimistic.

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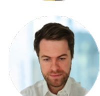
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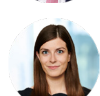
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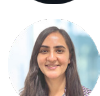
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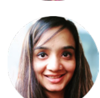
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