

# STANDARD BANK ECONOMIC BRIEFING



## The Ukraine conflict and its implications

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Standard Bank **ÉPOSSÍVEL**



## Key points

The Russia/Ukraine conflict is the second adverse global supply shock after Covid.

Supply shocks cause weaker growth and higher inflation.

Recessions appear likely in many advanced economies, particularly in Europe.

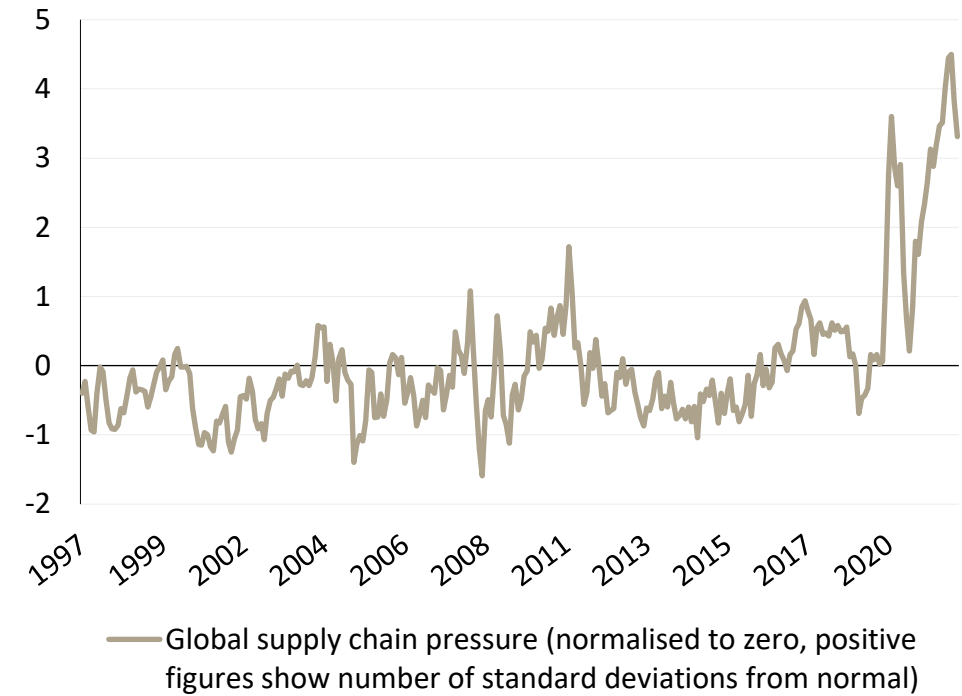
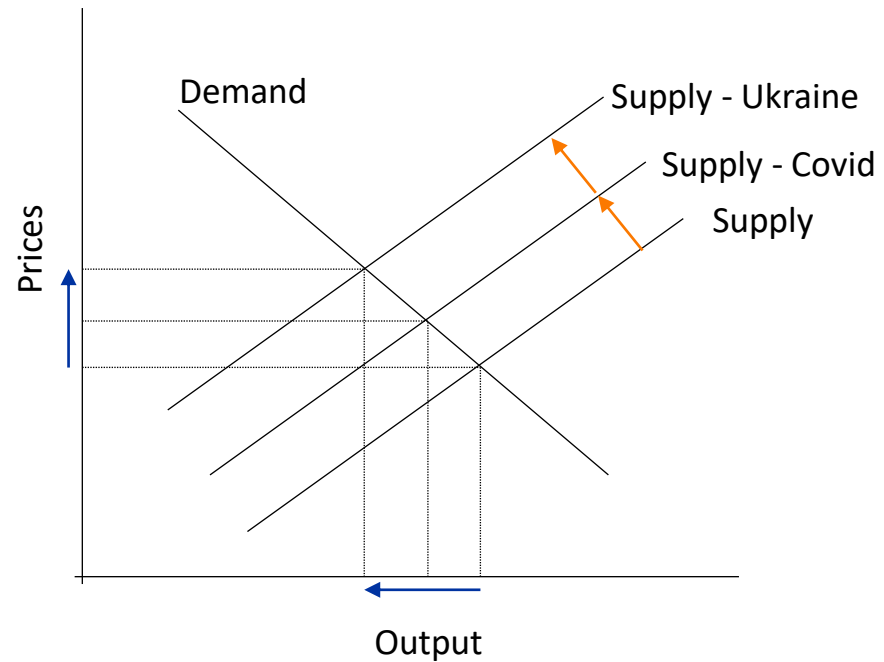
The Federal Reserve will have to increase interest rates significantly to eliminate inflation.

The prices of financial assets such as stocks and bonds cannot be 'saved' by central bank easing, as has happened in the past.

It all means a very challenging environment for emerging market countries.



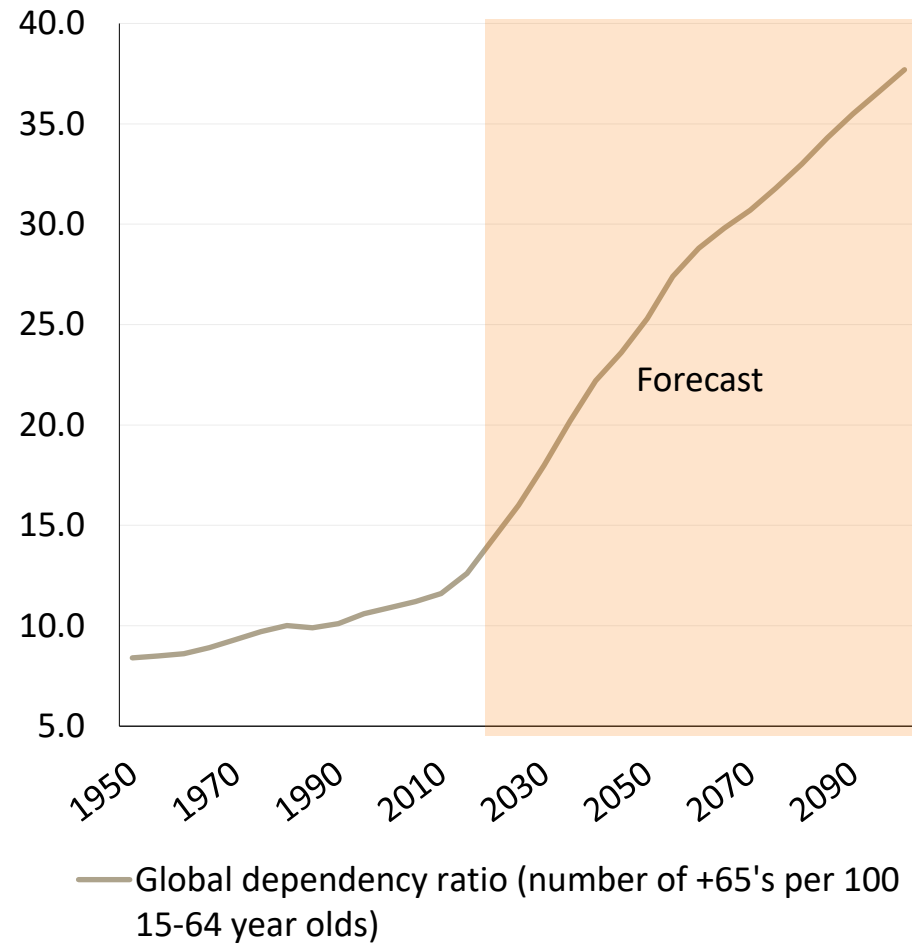
## Two global supply shocks



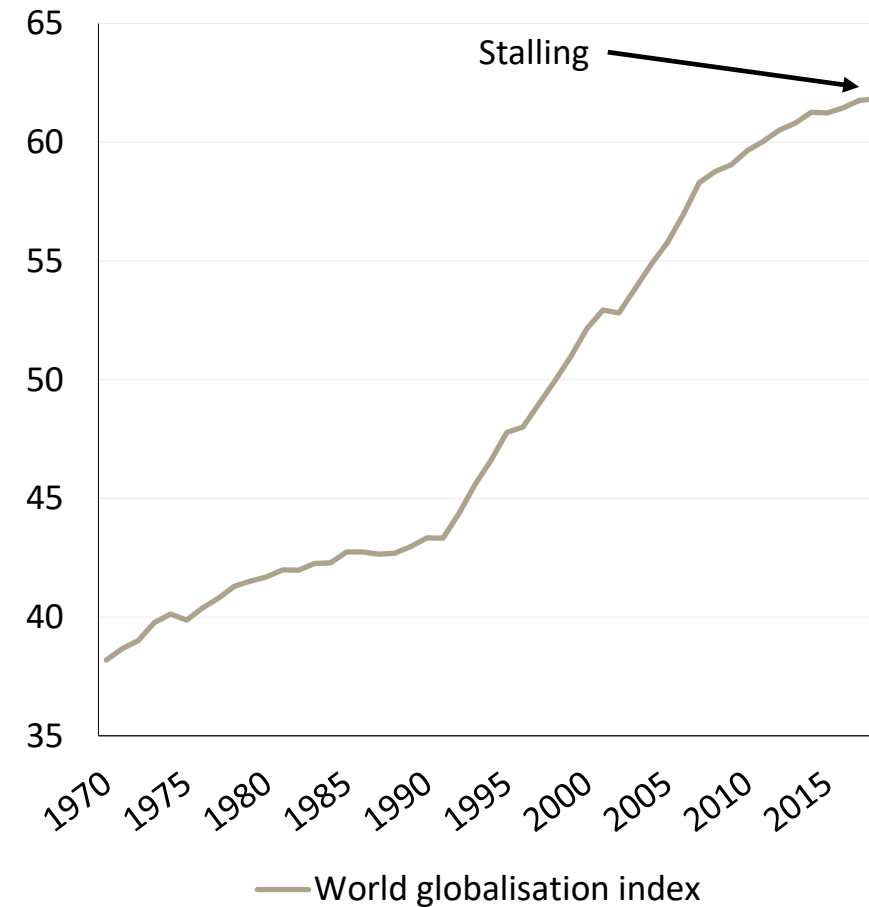
Source: Standard Bank Research, Reserve Bank of New York



## Long-term inflationary pressures rising



Source: UN, KOF institute





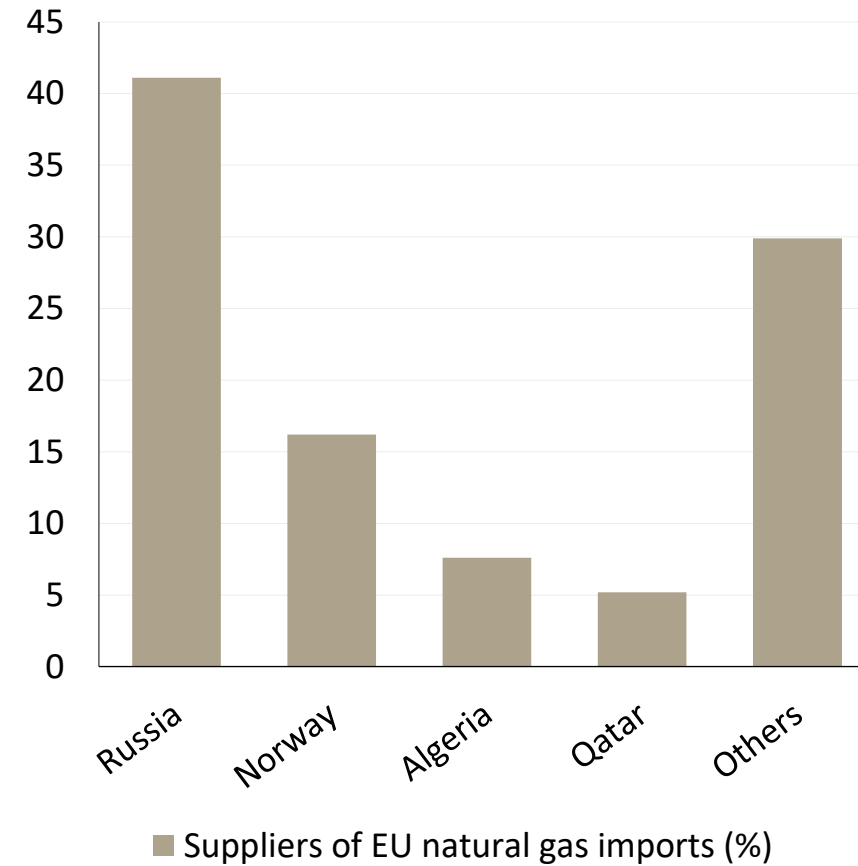
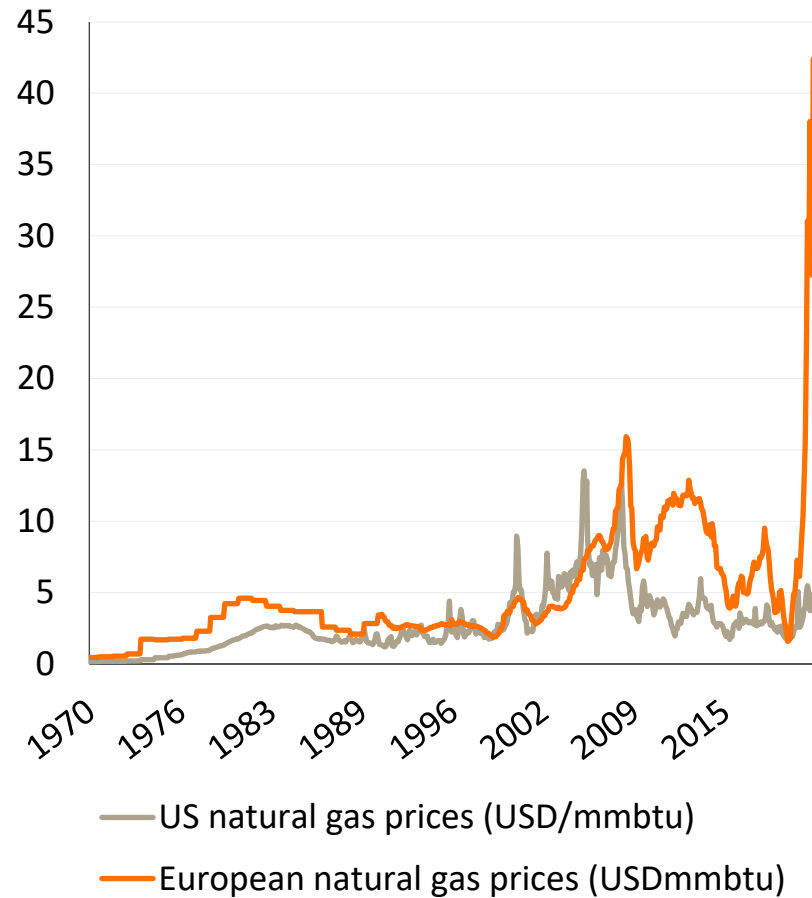
## Slower growth, elevated inflation

	GDP				CPI		
	2021	2022 <sup>f</sup>	2023 <sup>f</sup>		2021	2022 <sup>f</sup>	2023 <sup>f</sup>
<b>US</b>	5.7	3.5	2.0		4.7	6.5	4.0
<b>Euro</b>	5.3	2.0	1.0		2.6	6.0	3.0
<b>UK</b>	7.4	3.5	1.2		2.6	7.0	4.5
<b>Japan</b>	1.6	2.2	1.1		-0.3	1.7	1.5
<b>China</b>	8.1	5.5	4.2		0.9	2.1	2.0

Source: Standard Bank Research



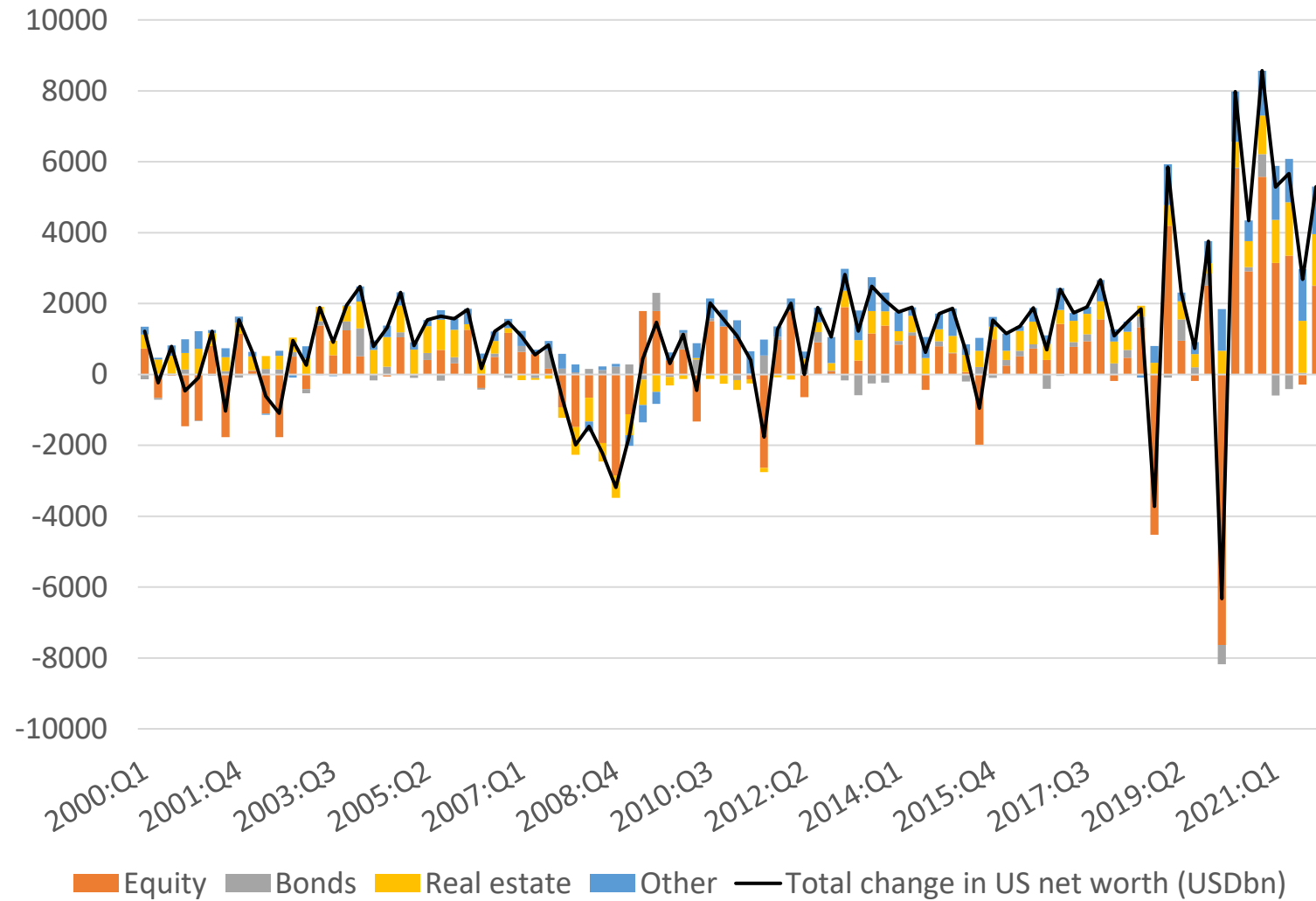
## European and US gas price experience very different



Source: World Bank, Eurostat



## Fed could find it hard to reduce demand



Source: Federal Reserve



## Interest rate and currency forecasts

	2022			2023		
	Q2	Q3	Q4	Q1	Q2	Q3
<b>US</b>						
Policy	1.5	2.25	2.75	3.0	3.25	3.25
10yr	3.0	3.1	3.2	3.0	2.7	2.5
<b>EZ</b>						
Policy	0.0	0.0	0.25	0.5	0.75	1.0
10yr	0.9	1.0	1.1	1.3	1.4	1.4
<b>UK</b>						
Policy	1.25	1.75	2.0	2.0	2.0	2.25
10yr	2.0	2.1	2.2	2.5	2.6	2.5

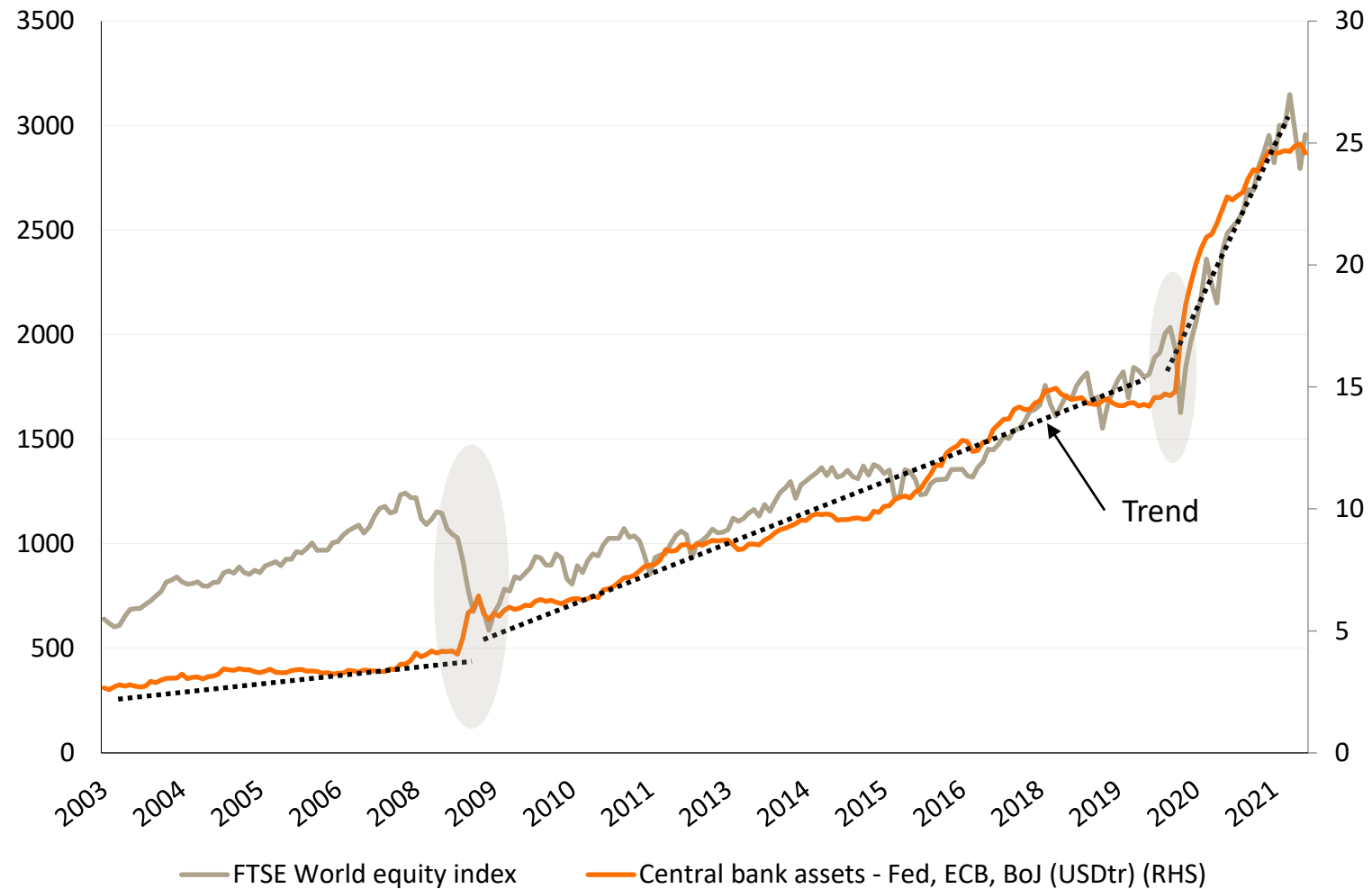
	1mth	3mth	6mth	12mth	24mth
<b>EUR/USD</b>	1.05	1.00	1.10	1.15	1.25
<b>USD/JPY</b>	130	135	130	125	115
<b>GBP/USD</b>	1.25	1.18	1.31	1.4	1.52
<b>USD/CNY</b>	6.7	6.9	6.8	6.5	6.0

Source: Standard Bank Research





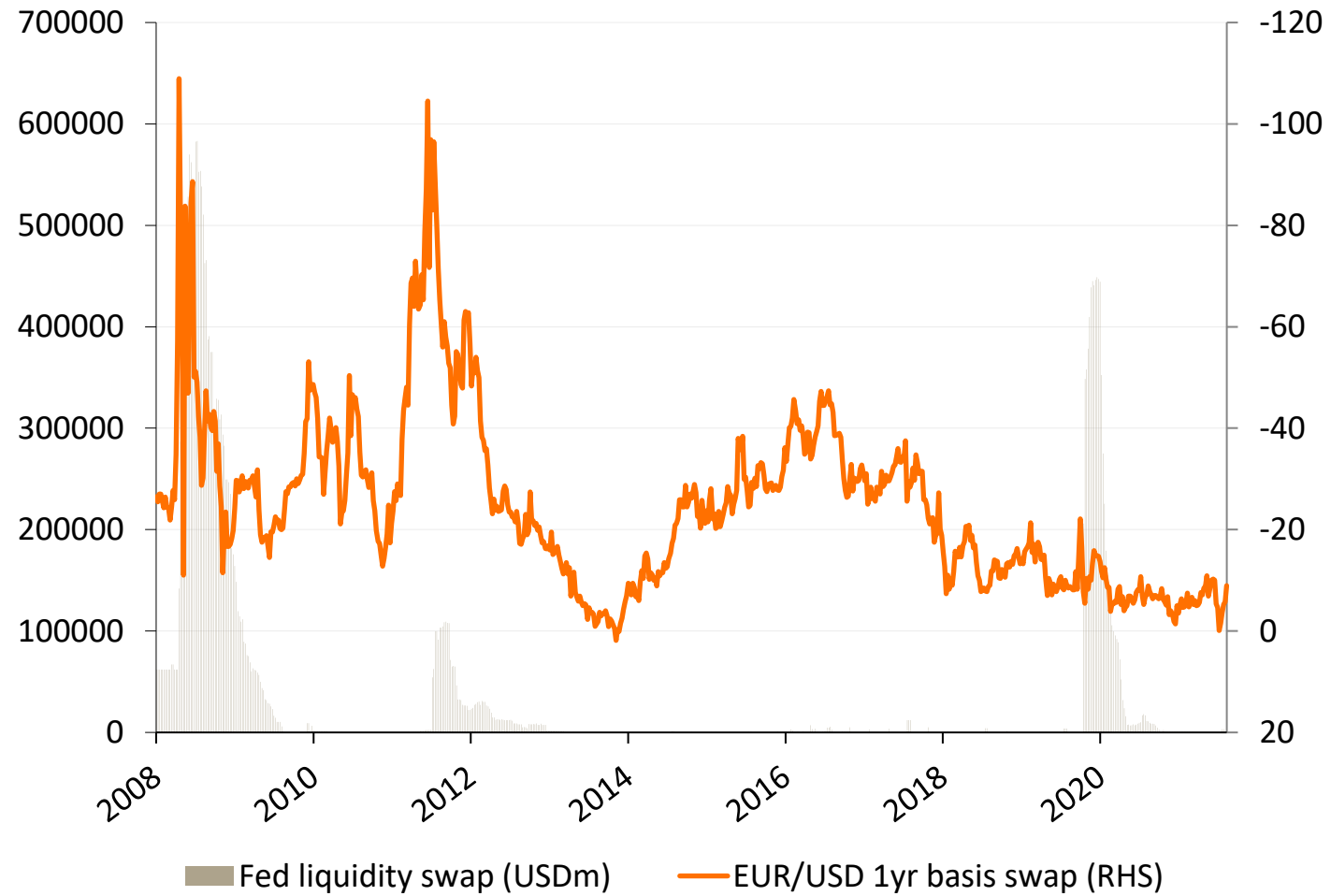
## Central banks can't come to the rescue this time



Source: Refinitiv datastream



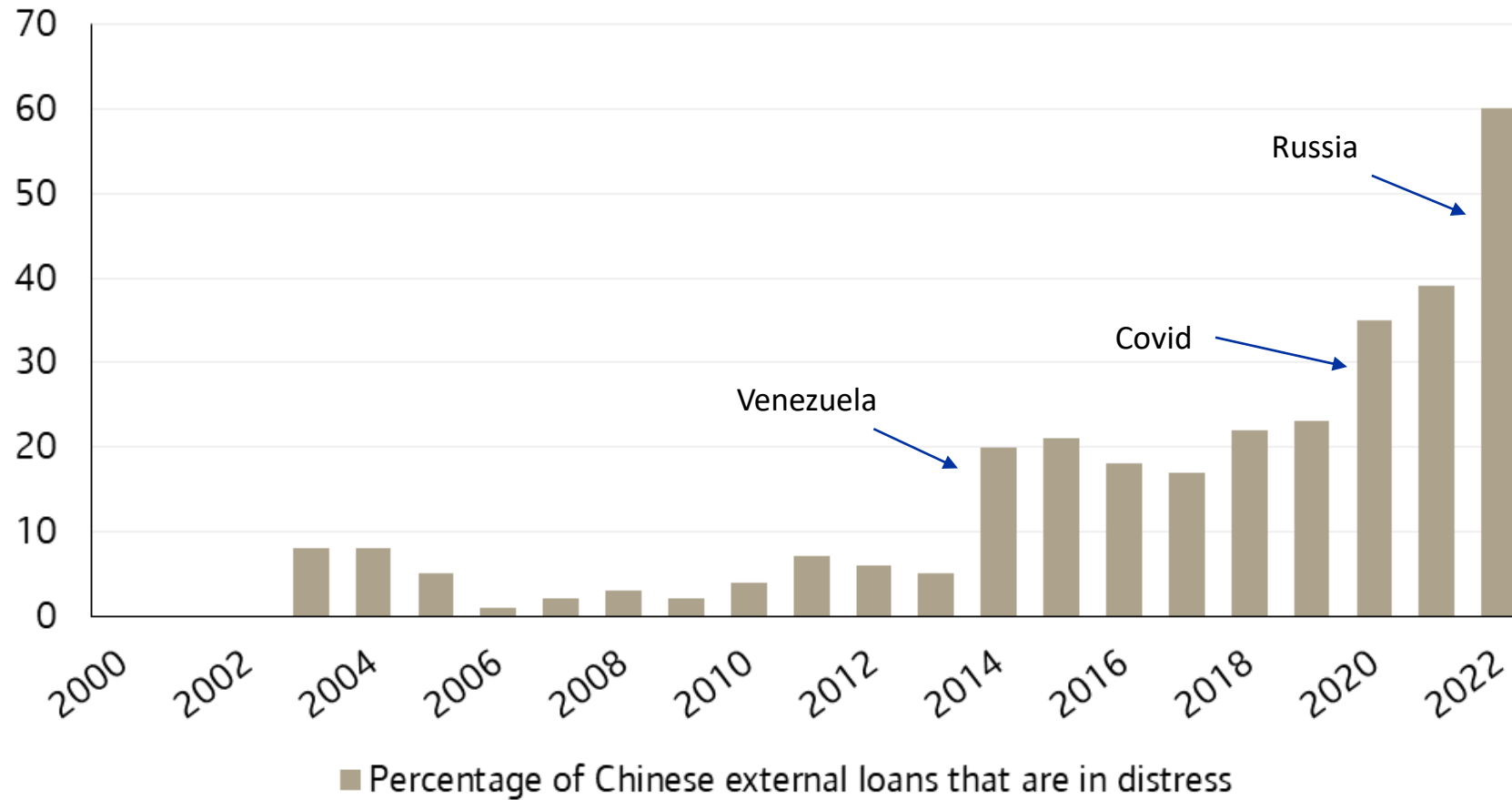
## Fed's addition of dollar liquidity eases the dollar shortage



Source: Bloomberg



## Challenging times for Chinese creditors



Source: Horn et al (2021), Custer et al (2021) and World Bank international debt statistics



## Key takeaways for African countries from the Russia/Ukraine conflict

Recession risks, particularly in Europe, will hurt African export prospects.

One counterweight is Africa's ability to supply Europe energy products as Europe migrates away from Russian supply.

Dollar funding conditions could become more difficult as the Federal Reserve is likely to raise policy rates more than expected. Funding in euros may be preferable.

Commodity protectionism keeps prices high and potentially impacts prosperity differences between commodity and non-commodity producing nations.

Be aware of creditor risk as China's external loans degrade in credit quality and pose the risk that China's appetite for lending diminishes.



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