Brown Brothers Harriman

FOREIGN EXCHANGE

2024 FIRST QUARTER OUTLOOK

THE GREAT PIVOT

Expectation vs. Reality:
How Have Major Themes Tested Markets?

As 2024 begins, we take a look at the major themes that tested markets in 2023 and how they could continue to play a role this year.

In addition, our **2024 Global Election Guide** (see page 12) plots the course of more than 15 countries – based on their percentage of world OTC FX volume by currency – as they head to the polls.

EXPECTATION: 2023's CALL FOR A WEAKER DOLLAR

- REALITY: With predictions that the U.S. was headed into recession and the Fed cutting rates significantly, there was an overwhelming call for a weaker dollar. Instead, the U.S. economy has continued to grow above trend and the dollar (as measured by DXY) has held up relatively well despite aggressive rate cuts in market pricing (even with a potential soft landing in the works). The dollar is up YTD against all major currencies and virtually every EM currency. The dollar is expected to gain even more when Fed easing expectations adjust.

EXPECTATION: U.S. RECESSION CALL

- REALITY: Fueling the weak dollar call was an insistence that the eurozone would somehow outperform the U.S. economically. However, as the year progressed, the U.S. has continued to grow above trend and the eurozone is narrowly avoiding recession. Ongoing resilience in the U.S. has led to the withdrawal of the recession call in 2024 and while a soft landing is still not guaranteed, the economy has strong momentum even as the market has done the easing for the Fed.

EXPECTATION: A STRONG YEN UNDER GOVERNOR UEDA

- REALITY: With a new governor in office, the markets had high hopes for a Bank of Japan pivot that would strengthen the yen. Instead, Ueda has turned out to be just as dovish (if not more so) as his predecessor Kuroda and markets are still left guessing about the timing of BOJ liftoff. With lower inflation readings (Tokyo's core inflation was below the 2% target in January), there is simply no rush for the BOJ to tighten, and the USD/JPY should continue to rise.

EXPECTATION: HOPES OF CHINA REOPENING TO LEAD GLOBAL GROWTH

- REALITY: Instead, China has struggled under the weight of a huge debt overhang stemming largely from an overextended property sector, similar to Japan's struggle to escape a deflationary spiral. As such, it's quite possible that China also experiences a lost decade, creating a negative impact on global growth, commodities, and emerging markets.

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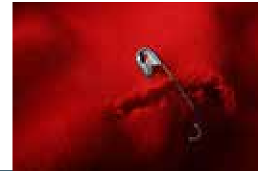

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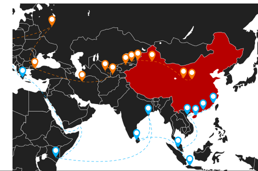


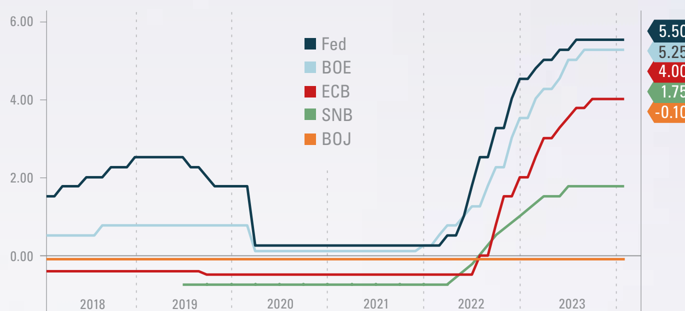
13 **2024 Global Election Guide**

The Year of the Pivot

By Win Thin & Elias Haddad

After central banks around the world tightened monetary policy aggressively in 2022 and 2023, the Year of the Pivot is upon us in 2024. Aggressive easing cycles are priced in for most of the central banks and while this is positive for global growth, the impact is unlikely to be felt until 2025.

Major Policy Rates, %

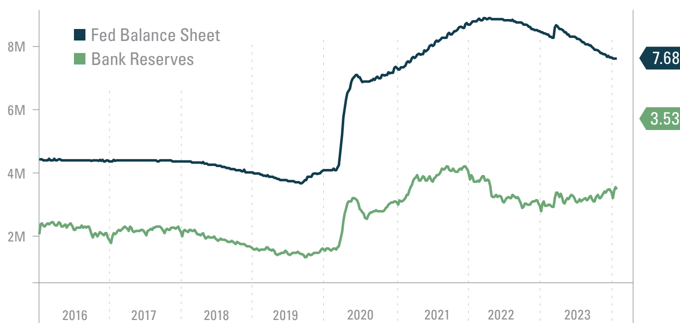


Americas

The Fed delivered a hawkish hold in January. Its statement removed the reference to "further policy firming," and confirmed the tightening bias is gone. However, it stressed "The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%." The section on balance sheet normalization was unchanged, suggesting discussions remain ongoing with no firm decisions made yet on slowing the pace and eventually halting QT.

Chair Powell's press conference echoed the statement that the Fed is looking for greater confidence that inflation is moving down, implying it's not there yet. He shared direct pushback against those saying the Fed must cut nominal rates to keep real rates from rising too much. Powell also acknowledged the Fed's plan to start in-depth discussions on the balance sheet unwind at the March meeting, suggesting little urgency. Lastly and most importantly, Powell clearly stated it would be unlikely that the Fed will cut in March.

Federal Reserve Accounts, $trillion



Despite the pushback from Powell, the market believes a March cut is still in play. By the time the March 19-20 FOMC meeting rolls around, we will have seen two each of jobs, CPI, PPI, and retail sales reports and so a lot can happen between now and March. We believe the Fed did the right thing by delivering a balanced hold yesterday and as things stand, we see absolutely no reason for the Fed to ease March 20. That said, May 1 and June 12 are possible, depending on the data then. Rates are expected to be cut 125 bp over the next 12 months, followed by another 75 bp over the subsequent 12 months that would take the Fed Funds target range down to 3.25-3.50%.

Banking sector stress is back in the headlines with concerns spiking after the New York Community Bancorp's big earnings miss recently. While the Fed is concerned, it's unlikely this will lead to cuts, as made clear by the Fed's two previous hikes following the SVB debacle in March 2023. If needed, the Fed can simply extend its emergency Bank Term Funding Program that it had recently announced would expire as planned next month.

The Bank of Canada (BOC) has kept its target for the overnight rate at 5% since the last 25 bp hike in July 2023. They anticipate economic growth to stall in Q4 2023 and be close to zero through Q1. Rates are expected to be cut 100 bp over the next 12 months followed by another 75 bp over the subsequent 12 months, and another 25 bp over the subsequent 12 months, taking the policy rate to 3.0%. We doubt the BOC will loosen policy as aggressively as discounted by money markets, as a sustained drop in core inflation may take longer to materialize than markets anticipate. The BOC's preferred measures of core inflation (CPI-trim and CPI-median) have been sticky around 3.5% since September and wage growth is elevated.

Europe

The European Central Bank (ECB) delivered a hold in January and confirmed its plan to slow the pace of Quantitative Tightening at mid-year and halt at year-end. However, President Lagarde came across dovish at her press conference as she emphasized that the debate over rate cuts was premature and reiterated that borrowing costs could be lowered from the summer. However, her lack of push back against aggressive money market expectations of the ECB's easing cycle became the biggest dovish surprise. The OIS curve implies a 15% probability of a 25 bp rate cut in March but it is about 66% priced in for April. The ECB is expected to cut rates 125 bp over the next 12 months, followed by another 50 bp over the subsequent 12 months taking the policy rate down to 25%.

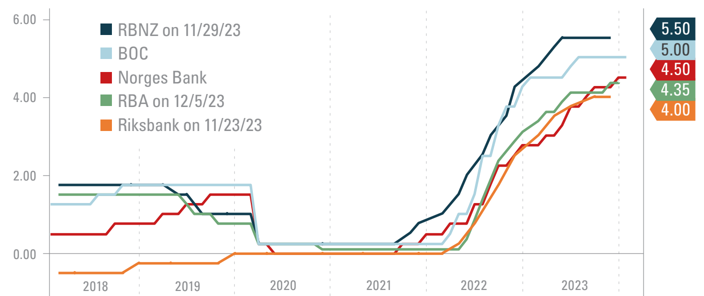
The Bank of England (BOE) unsurprisingly left the policy rate at 5.25% in January but laid the groundwork for looser policy settings. First, two MPC members preferred to increase the Bank Rate by 25 bp and one preferred to reduce it by 25 bp. In the previous two meetings, 3 MPC members voted for a 25 bp hike. Second, the Monetary Policy Summary has removed their upside rate bias and the BoE has instead noted the restrictive stance of monetary policy is weighing on activity in the real economy and leading to a looser labour market. As such, "the Committee will keep under review for how long Bank Rate should be maintained at its current level." Finally, the BOE's inflation projections were revised lower and UK CPI inflation is now projected to fall temporarily to around the 2% target in 2024 Q2, remaining under 3% throughout the forecast horizon. The market is pricing in 100 bp of policy rate cuts over the next 12 months (starting in Q2), followed by another 75 bp over the subsequent 12 months that take the policy rate down to 3.5%. We believe the BOE does not deliver this many rate cuts partly because the projected UK fiscal drag in 2024 will likely be softer.

Riksbank delivered a dovish hold in February. It kept rates steady at 4.0%, as expected, but warned that "the policy rate probably can be cut sooner than was indicated in the November forecast." While the November projections implied no rate cuts before end-2025, the possibility of doing so during the first half of 2024 cannot be ruled out, according to the Riksbank. With inflationary pressure indicators continuing to decline going forward and the slowdown in Swedish economic activity (driven by household consumption and housing investment) continuing roughly in line with the November forecast, Riksbank easing expectations have picked up. Markets see nearly 60% probability of a 25 bp rate cut in March. Over the next 12 months, the OIS curve is pricing in a total of 125 bp of easing, followed by another 50 bp over the subsequent 12 months that takes the policy rate to 2.25%. This seems too aggressive considering the potential for domestic demand in Sweden to pick up gradually in 2024. Consumer confidence has also recovered from its October 2022 low and the decline in inflation will likely lead to an increase in real disposable household income and underpin higher consumption.

The Swiss National Bank (SNB) held policy rate at 1.75% in December. Though possible rate hikes were dropped from the statement, President Jordan stressed that a rate cut was not discussed whilst adding that officials will have to shift their stance if franc strength creates restrictive monetary conditions. Our base case is for the SNB to start easing policy with a 25 bp cut in March, which the swaps market puts at nearly 66% probability. Inflation has been running below the 2% target since June, while core inflation remains muted at 1.5% y/y in December. Meanwhile, leading indicators like the SNB's Business Cycle Index and the KOF Economic Barometer point to below-average economic growth in Q1. Overall, the SNB is expected to cut rates 75 bp over the next 12 months, taking the policy rate to 1.0%.

As was widely anticipated, **the Norges Bank** left the policy rate at 4.5% in January. They also reiterated that "the policy rate will likely be kept at that level for some time ahead" as the economy is cooling down but inflation is markedly above target. Their December 2023 Monetary Policy Report indicates the policy rate will stay at 4.5% until Q3 2024 before gradually moving down. Despite this forward guidance, markets are pricing in the start of an easing cycle by mid-year, 75 bp of easing seen over the next 12 months followed by another 50 bp over the subsequent 12 months. With higher real wage growth in 2024 to cushion the expected decline in economic activity, there is room for interest rate futures to curtail money market expectations The Norges Bank projects real wages to rise by 0.60% in 2024 following falls of -0.03% in 2023 and -1.46% in 2022.

Policy Rates, %

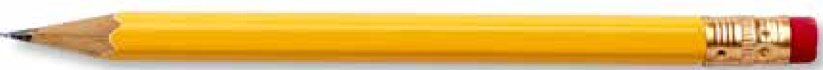


Asia

The Bank of Japan (BOJ), a notable global outlier, remained on hold as other central banks tightened their policy over the past year. When Ueda succeeded Kuroda as Governor in early 2023, many expected him to take a more hawkish stance than his predecessor. Ueda has remained resolutely dovish fearing another premature tightening cycle would plunge the economy back into recession. That said, we believe the Japanese economy is more resilient that many believe. If the spring wage negotiations result in solid pay increases, we believe the Bank of Japan will begin a modest tightening cycle around mid-year. The swaps market is pricing in June liftoff but the path higher for rates is likely to be very shallow.

The Reserve Bank of Australia (RBA) left the cash target rate at 4.35% in December after unexpectedly lifting it by 25 bp the previous month. Improving real wage growth, tight labor market conditions, rising house prices, and a small fiscal thrust seen suggest the current weakness in aggregate demand is unlikely to persist. Markets continue to see about 50 bp of policy rate cuts over the next 12 months (starting in Q3), followed by another 25 bp over the subsequent 12 months that would take the policy rate down to 3.60%.

The Reserve Bank of New Zealand (RBNZ) has left the Official Cash Rate (OCR) at 5.50% since its last hike in May 2023. The RBNZ projects the OCR to stay at current levels until Q1 2025 before turning to less restrictive policy settings. In contrast, New Zealand interest rate futures are aggressively pricing-in 75 bp of OCR cuts over the next 12 months (starting in Q2), followed by another 75 bp over the subsequent 12 months taking the policy rate down to 4.0%. Indeed, New Zealand's December ANZ Business Outlook survey points to a rebound in activity, and firmer whole milk powder prices (NZ's biggest commodity export) will likely have a positive net wealth effect to the real economy.



China Mends, Emerging Market Monetary Policy Loosens

By Win Thin & Elias Haddad

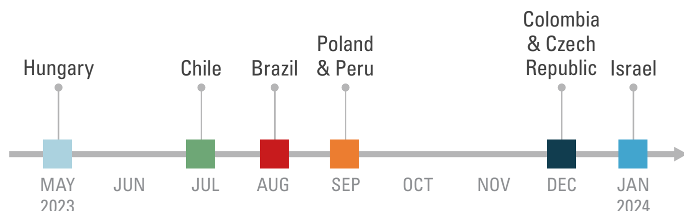
With a huge debt overhang that will likely require eventual debt restructuring, and banking sector bailouts,[1] China is unlikely to be a positive driver for emerging markets in 2024.

Instead, EM performance will likely rest on monetary policy. Policymakers will have to walk a fine line between cutting rates to boost growth and maintaining interest differentials to support their currencies. This will be an ongoing battle but overall, monetary policy in EM will likely get looser this year.

1. The process has already started after shadow banking giant Zhongzhi declared bankruptcy this January after policymakers approved the move in late December.

First to Hike, First to Cut

EM central banks were the first to hike in this cycle, and they were the first to cut. Many will continue to cut rates after starting the easing cycle last year:



Latin America

Latin America has clearly been the leader in rates, both on the way up and on the way down. **Banco de Mexico** is the only major bank in the region that has not begun easing yet, as inflation remains too elevated. Forward guidance from Banxico officials suggests that the easing cycle could begin at the March 21 meeting. The swaps market is pricing in a very cautious 25 bp of easing over the next three months, with 175 bp of total easing seen over the next 12 months followed by another 200 bp over the subsequent 24 months that would see the policy rate bottom at 7.5%.

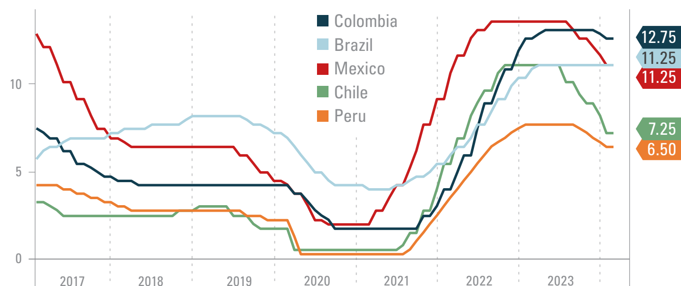
Colombia was also cautious and only started its easing cycle in December with a 25 bp cut. It followed up with another 25 bp cut in January as high inflation is leading the bank to ease "in a cautious way to control the risks that a more accelerated reduction will lead to a situation in which the process has to be slowed down or even eventually reversed." The swaps market is pricing in 475 bp of total easing over the next 12 months, followed by another 125 bp over the subsequent 12 months that would see the policy rate bottom at 6.75%.

On the other hand, **Chile** was the first in the region to start its easing cycle in July with an aggressive 100 bp cut to 10.25%. When the peso weakened as a result the bank moved to smaller cuts of 50 and 75 bp in H2 before accelerating back to 100 bp this January, with one policymaker in favor of an even larger 125 bp move. It has cut rates by a total of 400 bp already to 7.25%. The swaps market is pricing in 325 bp of total easing over the next 12 months that would see the policy rate bottom at 4.0%.

Brazil was next to start its easing cycle in August with a 50 bp cut to 13.25%. It has maintained that pace and has cut rates by a total of 300 bp so far to 11.25%. in January, the bank pledged to maintain this pace over the next several meetings. The swaps market is pricing in 200 bp of total easing over the next 12 months that would see the policy rate bottom at 9.25%.

Peru followed in September with a 25 bp cut to 7.5%. It has maintained that pace and has cut rates by a total of 125 bp already to 6.5%. Bloomberg consensus sees 175 bp of total easing over the next 12 months followed by another 75 bp over the subsequent 12 months that would see the policy rate bottom at 4.0%.

Latam Policy Rates, %



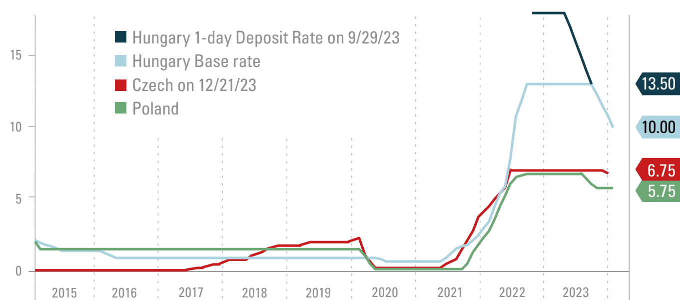
Eastern Europe's Central Banks Cut Rates, Ready for More

The **National Bank of Poland** has kept the policy rate steady at 5.75% after slashing it by a total of 100 bp last September and October. Those cuts were widely viewed as an attempt to boost the Law and Justice party's popularity ahead of October elections. Once opposition Civic Platform won, the central bank suddenly tilted hawkish and has keep rates steady. Governor Glapinski may be investigated by the new government and is part of a wider Constitutional crisis that is currently roiling Poland, as Law and Justice installed many of its supporters in key institutions. That said, the market is pricing in another 75 bp of rate cuts over the next 12 months followed by another 100 bp over the subsequent 12 months that would see the policy rate bottom near 4.0%. However, the extent to which the NBP eases further will depend in large part on the impact of fiscal and regulatory policies on price developments. Still, the new Polish pro-EU government is a tailwind for PLN as the government pledged to unlock tens of billions of EU funds in 2024.

The **Hungarian central bank (MNB)** has cut the policy rate from the 18.0% peak to 10.0% currently, mostly in 75 bp clips. At the January meeting, however, Deputy Governor Virag said 75 and 100 bp cuts would be considered at the February meeting. The swaps market is pricing in 425 bp of rate cuts over the next 12 months that would see the policy rate bottom at 7%. The bank has room to ease and support the modest recovery in domestic economic activity, as inflation in Hungary continues to decelerate broadly. As such real rates will likely remain positive and in favor of a firm HUF.

In line with the guidance offered in the **Czech National Bank's (CNB)** November Monetary Policy Report, the bank started the easing cycle with a 25 bp cut to 6.75% in December. In January, CNB Deputy Governor Frait and a board member Holub said they were ready to back bolder rate cuts. The swaps market is pricing in 300 bp of rate cuts over the next 12 months followed by another 50 bp over the subsequent 12 months that would see the policy rate bottom at 3.25%. However, the pace of easing will depend in large part on the persistence of the broad disinflationary trend currently underway. The bank forecasts inflation to fall to 3% (at the upper end of the 1-3% target range) in early 2024. Bottom line: real rates will likely remain positive and in favor of a firm CZK.

CEE Policy Rates, %

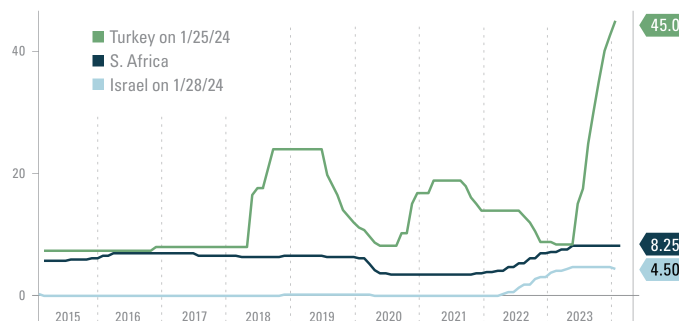


African and Middle Eastern central banks have yet to really join the global easing cycle. South Africa has kept rates at 8.25% since its last hike last May. Inflation has remained elevated and so the **South African Reserve Bank** has remained cautious. If inflation does fall as it forecasts, the easing cycle should begin in Q2 with a 25 bp cut, as the market expects. Of note, the swaps market is pricing in 75 bp of easing over the next 12 months, followed by another 25 bp over the subsequent 12 months that would see the policy rate bottom at 7.25%. South Africa's central bank projects a policy rate closer to 7.54% in 2024 and 7.30% in 2025.

The **Bank of Israel** started its easing cycle this January with a 25 bp cut to 4.5%. The bank forecasts the policy rate between 3.75-4.00% by year-end, which is higher than market pricing at 3.25%, which is also seen as the bottom. The Israeli government's plan to boost spending in the revised 2024 budget without offsetting revenue adjustments risks limiting the extent of easing by the Bank of Israel.

Turkey is an outlier and has been hiking rates since June 2023, when Hafize Gaye Erkan took over as Governor. **Turkey's central bank (CBRT)** has raised the policy rate by a total of 36.5 percentage points to 45.0% but confirmed in January that it believes "the monetary tightness required to establish the disinflation course is achieved and that this level will be maintained as long as needed." The bank added that "The committee assesses that the current level of the policy rate will be maintained until there is a significant decline in the underlying trend of monthly inflation and until inflation expectations converge to the projected forecast range." Erkan resigned abruptly in February and was replaced by Deputy Governor Karahan. We do not know if Erkan's hawkishness led to her downfall but either way, rate hikes so far are not enough to lower inflation and stabilize the lira. Yet the market is already pricing in the start of an easing cycle over the next three months followed by more aggressive cuts over the next two years that see the policy rate bottoming around 17%. Punishingly high inflation means real rates will likely remain deeply negative and a huge drag on TRY.

EMEA Policy Rates, %



Asia on Hold as Rates Peak

In emerging Asia, the major central banks have all remained on hold at their policy rate peaks.

Indonesia could justify a cut on the low inflation story alone. However, it remains focused on maintaining rupiah stability. As such, **Bank Indonesia** is unlikely to start cutting rates until the Fed does to maintain interest rate differentials. Bloomberg consensus sees BI starting the easing cycle in Q3 with 50 bp, followed by another 25 bp in Q4 and another 50 bp next year that would take the policy rate down to 4.75% at end-2025.

After the intra-meeting hike in October, the **Philippine central bank** has kept rates steady at two meetings. At the last meeting in December, the bank signaled comfort with its current policy settings and remained far from a pivot. The swaps market is pricing in the start of a modest easing cycle with a 25 bp cut over the next three month. Overall, 200 bp of total easing is priced in over the next 24 months that would see the policy rate bottom at 4.5%.

The **Bank of Korea** has kept rates steady since its last 25 bp hike to 3.5% in January 2023. While the bank removed language about

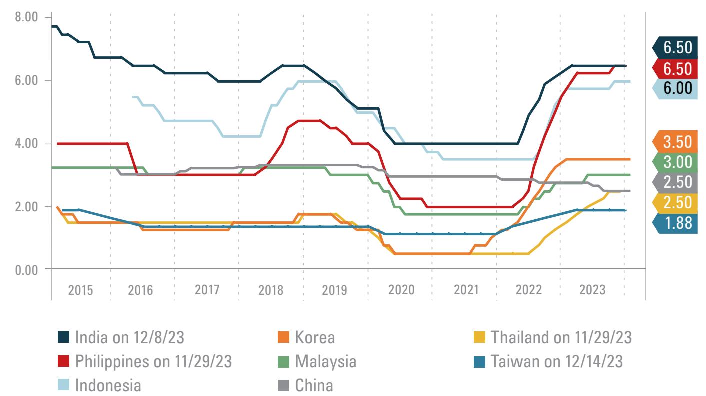
the potential need for further tightening at this January's meeting, Governor Rhee stressed a rate cut would not be easy for at least the next six months or more. Of note, financial sector risks remain elevated after weakness in the property sector forced builder Taeyoung to restructure its debt. High interest rates have led to increased stress in that sector, raising speculation that the BOK will cut rates sooner rather than later. The swaps market is pricing in steady rates over the next six months, followed by the start of an easing cycle over the subsequent six months with 25 bp of easing followed by another 50 bp over the subsequent 12 months that would see the policy rate bottom at 2.75%.

Reserve Bank of India last hiked its repo rate 25 bp to 6.5% in February 2023. There was a total 250 bp of tightening seen during that cycle. After keeping rates steady over the rest of 2023, Governor Das stressed at its December meeting that "It would be wrong to think or assume that a change of approach or any loosening is round the corner. It's not on the table." Nonetheless, the swaps market sees steady rates over the next three months followed by the start of an easing cycle with a 25 bp cut over the subsequent three months. A total 50 bp easing is priced in over the next 12 months that would see the policy rate bottom at 6.0%.

The government of Thailand has been putting pressure on the **Bank of Thailand** to cut rates in order to address what Prime Minister Thavisin calls an economic "crisis." The last 25 bp hike to 2.5% was seen back in September and the bank followed up with a hold in November. The bank said that the current level of rates was appropriate "for supporting long-term sustainable growth" while Assistant Governor Piti said rates are likely to remain steady for a while. The swaps market is pricing in the start of an easing cycle with a 25 bp cut over the next three months. A total of 50 bp of easing is priced in over the next 12 months that would see the policy rate bottom at 2.0%.

Elsewhere, the swaps market sees steady rates over the next six months in Malaysia and Taiwan, followed by the start of modest easing cycles over the subsequent six months. The Monetary Authority of Singapore just kept policy steady in January but could ease at the April meeting if inflation continues to fall.

Asia Policy Rates, %



China is the outlier and remains in an easing cycle. It recently cut reserve requirements for banks and has been cutting its policy rates cautiously. This is expected to continue, as deflationary risks remain high as the country struggles under the weight of a rapidly deflating property bubble and its knock-on effects. Of note, President Xi has been pushing the concept of "high quality development." While this is open to interpretation, our takeaway is that policymakers prefer sustainable (albeit lower) growth rates that benefit the wider economy rather than any quick boosts to the economy that can quickly fizzle out without much benefit to the wider populace. The economy barely managed to meet its 2023 growth target of "around 5%." Reports suggest it will maintain this target, but it will be much harder to meet without the benefit of a low base like it had in 2022 due to COVID restrictions.

One Belt. One Road.

BRI: How a Tighter Belt and More Roads Could Help China's Recovery

10 years after its launch, Jay Foraker evaluates how BRI's recent shifts towards more stringent lending criteria and certain regions could lead to growth.

Multiple developments collectively revealed in 2023 that China looks to be pivoting to a more challenging economic decade ahead. With trials including a population decline, slowing migration, decelerating productivity growth, and financial stress in the real estate sector, China's GDP growth is expected to slow to approximately 3% by 2030 and 2% by 2040.[1]

Despite this slow growth, recent pivots in the Belt and Road Initiative (BRI), the country's infrastructure and foreign policy project, as well as trade flows, could play a material role in recovery.

These include:

- BRI investments have slowed and become more risk-averse, but these investments and Chinese trade remain focused on and responsive to shifts in energy and resource needs
- Shifts in China's management of BRI lending credit risk, with enhanced due diligence of loans, and several measures to shore up BRI-related risk
- Shifts in global trading patterns, accelerated by Trump-era tariffs and pandemic-era supply chain constraints

One could argue that while BRI has been a risky venture for China (its marginal productivity returns are decreasing) its benefits in connecting China's trade network more closely with resources and priority markets for growth in 2024 will likely become more evident over time.

Let's take a closer look these shifts and consider scenarios that could play out in the coming year.

Key BRI Pivots

While originally created in 2013 to enhance physical trading links between China and Europe, BRI has since expanded to Africa, Oceana and Latin America. It has also sought to develop intra-regional trade among economically isolated Central Asian countries as well as its own western regions.[2]

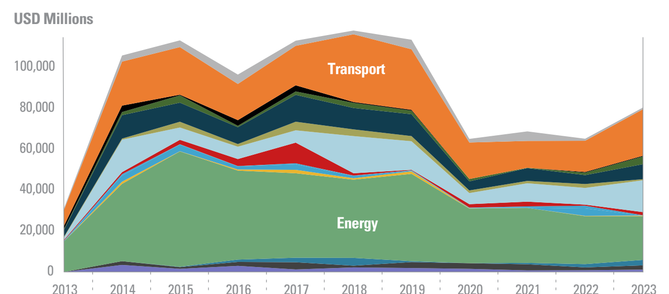
Figure 1: BRI countries

The American Enterprise Institute and The Heritage Foundation, China Global Investment Tracker.

While total BRI investment by China has slowed significantly since the peak of 2017 (Figure 2), energy, followed by transport investment, have consistently comprised the bulk of sectoral investment – with metals, real estate, and utilities playing a significant role.

BRI has become a leading indicator of China's economic development and foreign policy ambitions and priorities, with its practical objectives reflecting its ambitions of the 21st century. According to a report by the Council on Foreign Relations,[3] BRI has given Chinese Premier Xi Jinping channels for increasing the use of the renmimbi in international trade, growing export markets, and redirecting excess capacity.

Figure 2: Chinese BRI investment by economic sector, 2013-2023



The American Enterprise Institute and The Heritage Foundation, China Global Investment Tracker.

1. Revising down the rise of China | Lowy Institute
2. Analyzing the Latest Xi-Putin Meeting and China's Belt and Road Forum | ChinaPower Project (csis.org)
3. China's Massive Belt and Road Initiative | Council on Foreign Relations (cfr.org)

BRI investment has varied widely since 2013 (see Figure 3), as reflected by the various top five leading recipients of BRI investments:[4]

- **2023**: Indonesia, Saudi Arabia, Democratic Republic of the Congo, Hungary, and Singapore
- **2017 ("Peak BRI" year)**: Singapore, Pakistan, Russia, UAE, and Argentina
- **2013**: Saudi Arabia, Peru, Malaysia, Nigeria, and Iraq

Growth/decline in BRI investment by region (Figure 3) also reflect key contemporaneous events. Early BRI investments focused heavily on Sub-Saharan Africa, followed by a surge (from 2018) in South America investments, possibly because of trade reorientation due to Trump administration restrictions. We also saw a post-COVID (2020-2021) reorientation of BRI investment back closer to China, including the Middle East and West Asia.

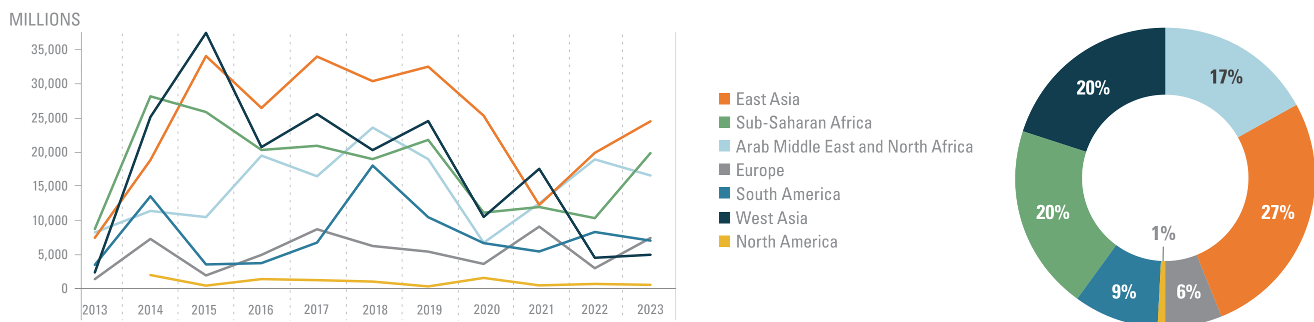
China's management of BRI lending credit risk has also pivoted significantly. Since 2017, China has not only reduced the number and value of loans but has also taken steps to enhance due diligence of prospective projects and ensure its recourse to repayment. Such moves could be expected of China (as of 2017, the world's largest bilateral creditor), but are arguably overdue given high-profile sovereign credit challenges in BRI countries including Sri Lanka, Laos, Zambia, and Ghana.

In October 2023, China shortened the time that Chinese and BRI country financial institutions can use for making macroeconomic projections[5] (from twenty to ten years) to enhance due diligence of prospective BRI loans. This encouraged greater lending prudence and has led to results including:

- Late payment penalties on BRI loans have doubled since 2018 when compared to the early years of BRI
- 72% of loans are now collateralized, versus under 20% earlier this century. A total of 94 BRI projects worth $56 billion were canceled in 2020-2021[6] in an effort to limit risk and exposure

Separately, China has taken steps that can be viewed as more controversial to shore up BRI-related risk, including decreasing USD-denominated infrastructure lending, while increasing RMB-denominated emergency lending, to ensure its largest borrowers can service existing debts.

Figure 3: Chinese BRI investment by geography



Change in BRI investments, 2015-2021

	2015	2016	2017	2018	2019	2020	2021
Sub-Saharan Africa	45%	-3%	30%	-19%	-20%	-35%	-31%
Arab Middle East and North Africa	-11%	183%	-46%	11%	22%	-74%	35%
West Asia	-16%	51%	35%	-53%	79%	-70%	32%
South America	-65%	-60%	-47%	992%	-96%	235%	58%
East Asia	68%	-1%	7%	10%	-18%	-12%	-59%
Europe	44%	-69%	4%	-20%	-19%	46%	-84%
North America	-73%	70%	177%	-24%	-80%	44%	-100%

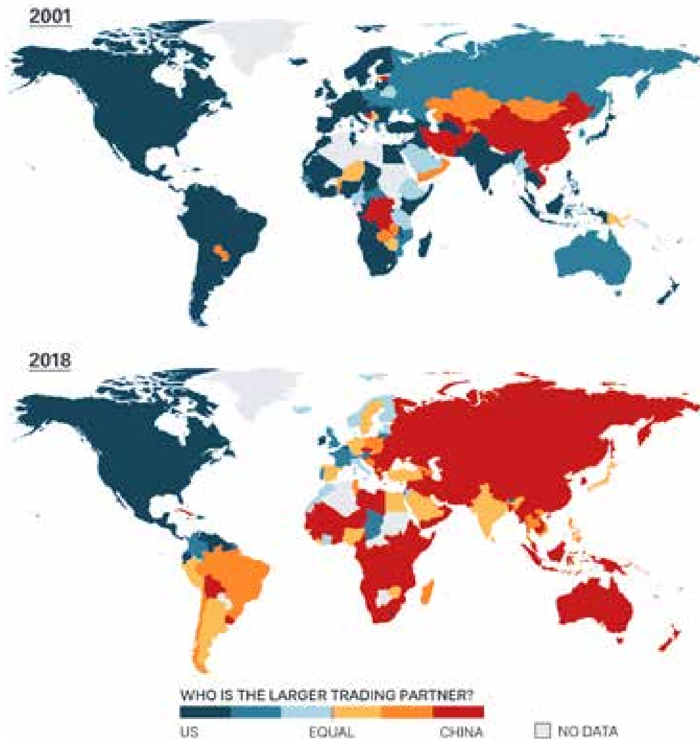
The American Enterprise Institute and The Heritage Foundation, China Global Investment Tracker.

4. These top five countries accounted for approximately one-third of all BRI investment during the years indicated. Source: China Global Investment Tracker | American Enterprise Institute - AEI
5. China revamps debt appraisal framework for Belt and Road programme | Reuters
6. Parks, B. C., Malik, A. A., Escobar, B., Zhang, S., Fedorochko, R., Solomon, K., Wang, F., Vlasto, L., Walsh, K. & Goodman, S. 2023. *Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative.* Williamsburg, VA: AidData at William & Mary

Key Pivots in Trade Orientation

Many recent pivots in trading patterns, accelerated by Trump-era tariffs and pandemic-era supply chain constraints, have their roots in the BRI. In parallel to BRI's growth, trading orientation of many countries throughout the world have shifted significantly since the turn of the century and continue to do so (see Figure 4).

Figure 4: Change in trade orientation with US/China, 2001-2018



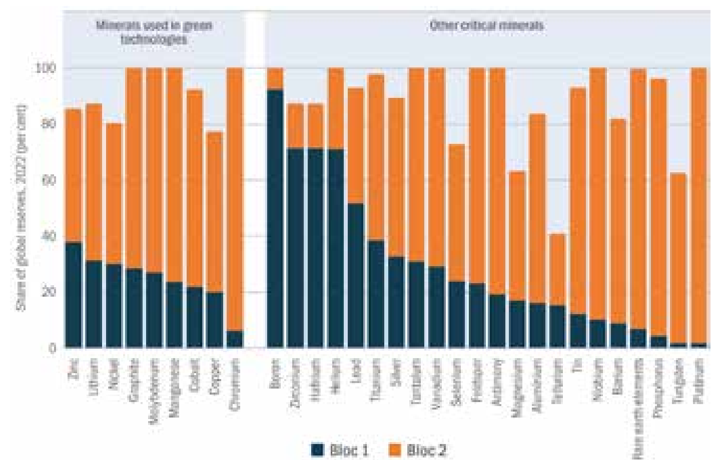
In studying which trading partners of the two largest economies shifted the most, three broad themes became apparent:

- **Realignment of energy resources**: Saudi Arabia dropped significantly as an import partner of the U.S. from 2015-21, whilst remaining unchanged vis-a-vis China. During this time, Guyana, and Libya both increased significantly as U.S. importing partners. To date, most of China BRI Energy investment has been in the non-renewable space
- **The growing importance of Africa to both nations**: Congo and Ghana saw a 25% jump in their rank as import partners with the U.S. while Congo and Guinea moved into 36% and 56% higher rankings as sources of imports to China
- **A few unexpected shifts**: Vietnam moved up significantly as a trading partner to both countries, from 15th to 10th largest import supplier to China and from 12th to 6th place as a source of imports to the U.S.. Hong Kong dropped by roughly half to both and the U.K. fell as an importer to both as well, specifically from the 7th to 14th largest source of imports to the U.S. – indicating Brexit has not significantly reoriented U.K. exports to the U.S.

Conclusions

While some observers remain focused on the potential military significance of BRI projects for China, it is difficult to look past these recent pivots as symptomatic of a global resources race between China and the West. China and its allies dominate production of most critical raw materials, and China trade tension and supply chain issues have increased the salience of infrastructure investment in the U.S.

Figure 5: Reserves of critical raw materials in countries geopolitically aligned with the West and the rest of the world[7]



Source: S&P, Voeten (2013) and authors' calculations.
NOTE: Based on the location of mines.

7. The green transition and geopolitical tensions | CEPR.

2024 Global Election Guide

In the "Year of the Vote", Jay Foraker charts the course of more than 15 countries – and looks at their percentage of world FX volume – as they head to the polls.

Date	Country	Highlights/Results	Currency	% of World OTC FX Volume by Currency (2022)[1]	% of World OTC FX Volume by Geography (2022)[2]	% of World Merch. Trade Volume (2022)[3]	% of World GDP (2022)[4]	% of World Pop. (2023, est.)[5]
Feb 7	**Bangladesh**	PM Sheikh Hasina won fourth five-year term with her Awami League (AL) party and allies taking 75% of parliamentary seats amid strong, infrastructure-fueled economic growth. Election was boycotted by leading opposition Bangladeshi National Party (BNP) amid crack-downs on political opposition and allegations of election fraud by AL.	BDT	N/A	N/A	0.28%	0.45%	2.10%
Jan 13	**Taiwan**	Lai Ching-te of ruling Democratic Progressive Party's (DPP), which champions Taiwan's identity and rejects China's territorial claims, won plurality (40%) of vote in unprecedented third consecutive victory. DPP also lost its parliamentary majority reflecting growing economic frustrations.	TWD	1.10%	0.33%	1.79%	0.75%	0.30%

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Feb 4	**El Salvador**	President Nayib Bukele, elected in 2019 as youngest national leader in Latin America (at age 37), was reelected. Systems failures, however, have resulted in a hand count being conducted to determine the size of his party's congressional majority. A supermajority would result in unprecedented power for Bukele who won popular support by reducing crime, albeit partly by imposing extended state of emergency. He has adopted Bitcoin as legal tender, despite many Salvadorans lacking both bank accounts and internet access.	USD	N/A	N/A	0.05%	0.03%	0.08%
Feb 8	**Pakistan**	General election in this Muslim majority, nuclear power featured incumbent PM Nawaz Sharif and son of former PM Benazir Bhutto. Pakistan's most popular national politician, Imran Khan, has been jailed on corruption charges and is out of running. Both Sharif and Khan have declared victory, however no group or party appears on course to win an overall parliamentary majority. Winner faces daunting challenges of managing foreign debt, inflation nearing 30% and frequent electrical outages.	PKR	N/A	N/A	0.20%	0.37%	3.10%
Feb 14	**Indonesia**	Incumbent President Widodo is term-limited from running for re-election in this fourth-largest country by population and one of fastest growing economies in world. Leading candidate Subianto (former dictator Suharto's son-in-law) has chosen Widodo's son as his running mate; two candidates move on to second round if no candidate reaches 50% of vote on Feb 14.	IDR	0.00%	0.06%	1.05%	1.30%	3.50%
Feb 25	**Senegal**	Incumbent President Sall is term-limited from running for re-election in this West African nation with rising insecurity and high youth unemployment. Opposition leader Sonko, currently jailed, is leading candidate among growing field of candidates.	XOF	N/A	N/A	0.03%	0.03%	0.23%
Mar 1	**Iran**	Popular protests against Iran's clerical regime have grown in recent years amid high inflation, poverty and continued U.S. sanctions. Low turnout in 2024's elections for Iran's Majlis (parliament) and Assembly of Experts (who appoint Supreme Leader) will signal waning public legitimacy for the regime.	IRR	N/A	N/A	0.26%	0.41%	1.10%

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Mar 15-17	**Russia**	Two years into the Ukraine war that has resulted in over 300 thousand Russian casualties and punishing Western economic Sanctions, President Putin will stand for re-election to fifth term. With opposition leader Navanly behind bars, Putin's nearly quarter-century reign will unlikely end at ballot box.	RUB	0.18%	N/A	1.72%	2.21%	1.78%
APR-MAY, Date TBC	**India**	Parliamentary elections will take place in world's largest democracy amid economic growth at 7%. Incumbent PM Modi's BJP party is favored to prevail, considering that his government has recently jailed or suspended multiple political opponents.	INR	1.63%	0.54%	2.32%	3.37%	17.53%
MAY-AUG, Date TBC	**South Africa**	Ruling African National Congress (ANC), in power since 1994, will have its support tested in national legislative elections amid high unemployment, energy shortages and rising crime.	ZAR	0.97%	0.16%	0.51%	0.40%	0.73%
Jun 2	**Mexico**	Popular incumbent President Andres Manuel Lopez Obrador (AMLO), term-limited from running for re-election, has selected former Mexico City Mayor Claudia Sheinbaum to run as his successor. She will face opposition candidate Xochitl Galvez amid sanguine economic environment with rising drug-related crime, violence and U.S. border tensions.	MXN	1.52%	0.20%	2.38%	1.45%	1.63%
Jun 6-9	**European Union**	27 EU member states will select over 720 parliamentarians to serve until 2029. Key trends to watch are overall turnout (51% in 2019) and success of various populist candidates.	EUR	30.54%	8.51%	28.90%	16.53%	33.03%
Jun 9	**Belgium**	Belgium's national Parliamentary elections will occur in tandem with EU Parliamentary elections. Far-right Vlaams Belang Party, currently leading in polls, has advocated for dissolution of Belgian union of Flemings and Walloons in place since 1830.	EUR	N/A	0.33%	2.49%	0.58%	0.15%
Fall, Date TBC	**Tunisia**	Incumbent President Saied will stand for re-election following constitutional changes granting presidential immunity. Opposition leader Ghannouchi is currently jailed, however, former Tunisair CEO Olfa Hamdi airline will run amid high debt and inflation, fragile democratic institutions and tensions with Europe over migration.	TND	N/A	N/A	0.09%	0.05%	0.15%

Date	Country	Highlights/Results	Currency	% of World OTC FX Volume by Currency (2022)[1]	% of World OTC FX Volume by Geography (2022)[2]	% of World Merch. Trade Volume (2022)[3]	% of World GDP (2022)[4]	% of World Pop. (2023, est.)[5]
Fall, Date TBC	**Venezuela**	US agreed in October 2023 to lift sanctions on Venezuela's oil sector in exchange for Maduro government holding free elections in latter half of 2024. Lone declared opposition candidate Maria Corina Machado was previously banned from office by Maduro. With roughly half of population living in poverty and exodus of refugees to U.S. and elsewhere, Maduro is under pressure to lift Machado's ban in order to proceed with elections and maintain sanctions relief.	VEF	N/A	N/A	0.03%	N/A	0.38%
Nov 9	**United States**	Quadrennial Presidential will be likely Biden v. Trump re-match. General election will feature 32 U.S. Senate, 435 U.S. House seats and 13 state Governorships being decided. Amid generally positive economic climate, foreign policy issues are expected to take center stage including immigration, border security and ongoing support for Ukraine and Israel.	USD	88.45%	19.43%	10.75%	25.11%	4.26%
Date TBC, before Jan 28, 2025	**United Kingdom**	UK's governing Conservative Party, in power since 2010 and currently led by PM Rishi Sunak, must call General Election by late January 2025 and is widely expected to do so before end of 2024. Polls have consistently shown opposition Labour Party led by Keir Starmer beating Conservatives by comfortable margins amid post-Brexit and COVID economic malaise featuring cost of living spikes and highest inflation rates in over forty years.	GBP	12.90%	38.14%	2.68%	3.05%	0.85%
			TOTAL	**67.70%**	**55.53%**	**56.09%**	**70.90%**	**67.70%**

1. Triennial Central Bank Survey of foreign exchange and Over-the-counter (OTC) derivatives markets in 2022 (bis.org)
   Totals exceed 100% as currencies are involved in both sides of transactions.
2. Triennial Central Bank Survey of foreign exchange and Over-the-counter (OTC) derivatives markets in 2022 (bis.org)
3. WTO Stats
4. GDP (current US$) | Data (worldbank.org)
5. Population (cia.gov)

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