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# THE YEAR OF POSTPONED PROJECTIONS

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The IMF's World Economic Outlook appeared on 12 October, and the report on China's economy came out on 24 October. Both are bad economic news reports. However, the IMF report gives terrible news for some but only a few, which seems unrealistic in an adverse global environment. The dependence of Western central banks on the Fed's interest rate is a reality in a world of open balances of payments and deregulated financial markets. When the Fed moves the interest rate, all central banks move in the same direction, or the exchange rate suffers as a consequence. The reason is that short-term capital; overnight deposits; 24, 48, 72 hours, one week; enter a country because of the interest rate differential with the US (arbitrage), and leave when the differential narrows. The best example was the European Central Bank which decided not to raise its interest rate because they were growing too slowly. In the face of the FED's rise, the euro's value fell 23% from 1.23 euros to the dollar to 1 in the last months of 2022. Other elements, such as the European recession derived from the energy problem, also played a role. Projections, however, put Europe at a 3% growth rate by 2022, which is unrealistic. With two-quarters of negative growth, the US appears with disproportionately high growth projections of 1.6%. The benefit of the war in Ukraine on the US economy may appear in the last two quarters. Still, the first two quarters were negative, and there is no reason to think otherwise for the rest of the year.

China, for its part, announced on 24 October that its annualised growth from October to October is 3.9% (below the desired 5.5%) and expects to end the year with 3.5% growth. Car sales push growth centred on electric and plug-in hybrids giving it dynamism from a new base of capital accumulation with new technology versus the west. Car manufacturing rose 24% between September 2021 and 2022, derived from increasing personal income. It would not be China's exports but its domestic consumption of automobiles that pushes its growth, whose exports grew by only 5% between those twelve months.

Given the booming automotive industry, on 1 January 2022, China announced eliminating ownership limits for automotive companies, allowing 100% foreign direct investment ownership in this sector. According to The Manufacturer, a Chinese portal, foreign investors can receive advantages such as customs duty exemptions for equipment imported for their use and a 15% flat

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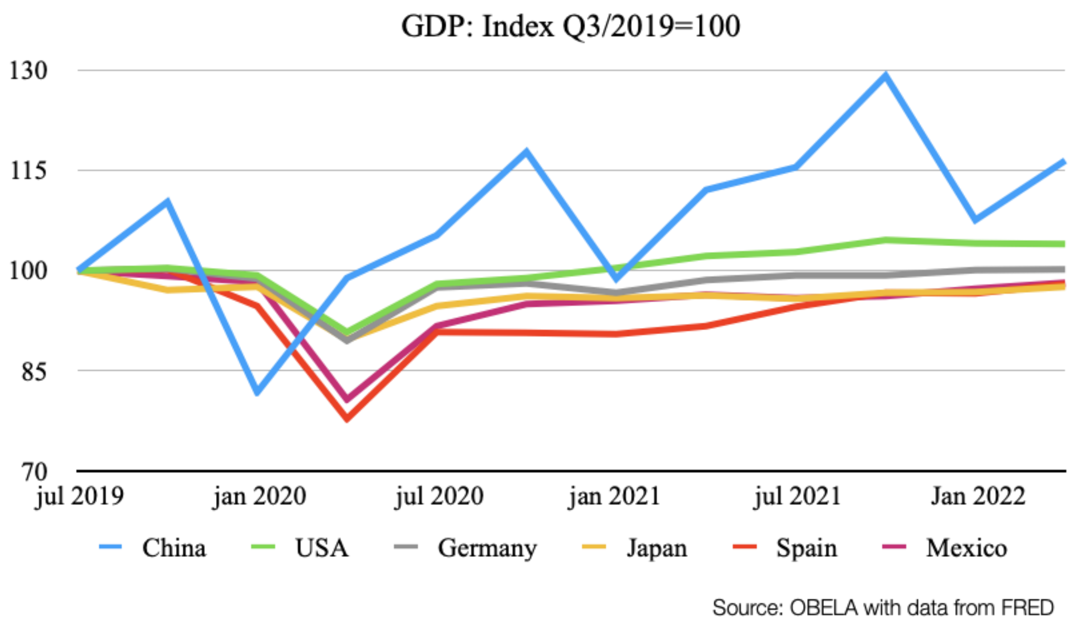
income tax in the automotive industry. In addition, qualified investments will enjoy a priority land supply and a discount of up to 30% below the minimum price for land use rights granted. The aim is to boost exports of foreign-brand vehicles manufactured in China (Ford Motors, GM, BMW, Honda and Tesla). In other words, a new Chinese and foreign automotive industry will dynamise the future Chinese economy, mainly for the domestic market and export.




The problem for foreign brands inside China is that their new electric vehicles have been designed and developed with the US and European markets in mind, focusing on performance. At the same time, inside China, technology and intelligent vehicles pull sales. To tackle this, the US Department of Commerce's Bureau of Industry and Security (BIS) continues its trade war. It announced on 7 October that it is carrying out a series of targeted updates to its export controls on specific microchips.

Meanwhile, Latin America's growth projections are predictably poor. Still, they are likely to turn out worse than projected, particularly for Mexico and the entire Caribbean Basin, which have 80% export trade with the northern neighbour. This area will therefore grow almost nothing. South America may have better luck, more related to China. The problem is not whether volumes will be better or not but whether prices will stay. All indications are that rising interest rates depress commodity prices due to portfolio effects. The reverse is also true. The boom of the last two years resulted from the fall and the injection of liquidity in 2020. The same should happen with prices now that we are in the reverse dynamic. This time, even gold, once a reserve value, fell. It became an industrial commodity and ceased to be a reserve metal. The price of silver, platinum, and copper fell, to mention the most important for South America. All mineral prices are still well above where they were before March 2020, when the Fed's massive injection of liquidity (20% of GDP) happened. The Fed is now in the reverse position, so prices may fall while volume sales are likely to remain. The outlook for 2022 GDP in Latin America looks dark, and 2023 looks worse. Save Asia; we are all in the same boat. All.