



Turning point

2024 Outlook

December 2023

Coming up in 2024

A big year

The certain uncertainties		... and the uncertain uncertainties	
Macroeconomics	Supply chains	Elections	Global geopolitics
Growth vs. caution Expensive basics	Sustainability requirements Logistics: structural market changes and bottlenecks	Biggest year in history	Flare-ups everywhere
Slow growth in 2024, set to rebound into 2025 Wages and input cost levels remain high	De-risking ramps up in 2024, but infrastructure and decarbonization not out of step; End of ocean carrier alliances balanced by capacity glut	Civil unrest a key concern Severe policy changes unlikely in most places, except potentially in the US	Global supply chain impacts contained for now US or China domestic crises could alter the trajectory

AGENDA

- I. Global Economic Outlook**
Slow growth and high recession risk

- II. Supply Chain Risks and Opportunities
The early stages of redefining global value chains

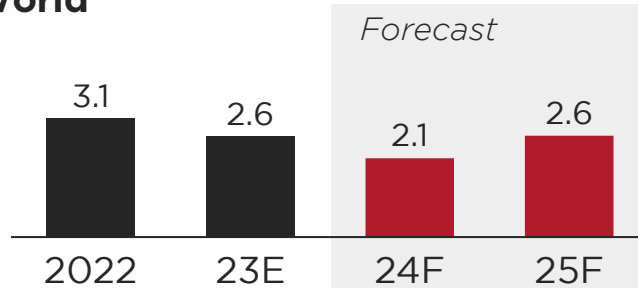
- III. Looming Geopolitical Risks
Unresolved crises, premium on risk management

The Big Picture: slow growth in 2024 set to rebound into 2025

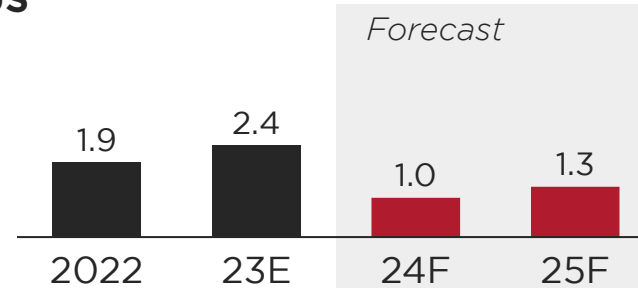
US resilience put to the test, China slowing, EU on the brink of recession

GLOBAL GROWTH FORECAST: YOY % CHANGE IN REAL GDP

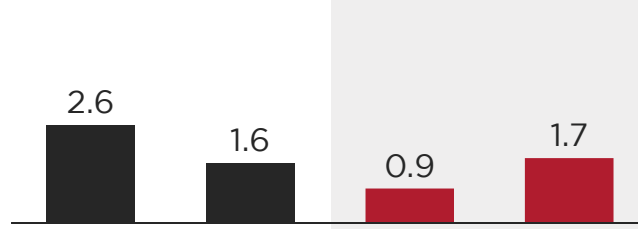
World



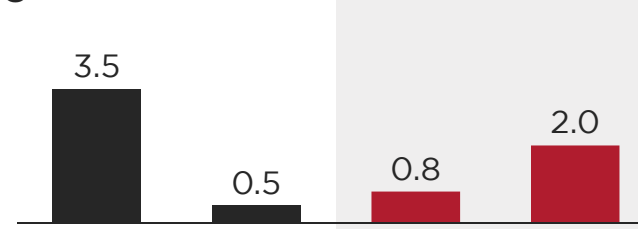
US



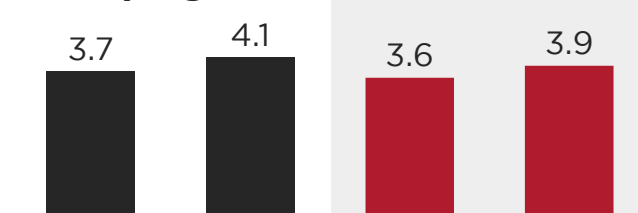
Advanced Economies



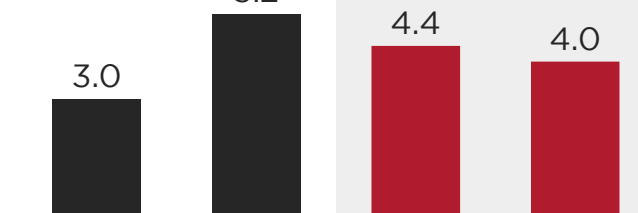
EU



Developing Economies



China



KEY POINTS

- Global economic growth will be below average for several years
- Key markets will suffer from weaker domestic demand stemming from high inflation and interest rates, and the recent savings drawdown
 - US: Odds of a soft-landing improving, but highly uncertain
 - EU: Fighting off recession, lack of long-term dynamism
 - China: Growth is bridled by cyclical headwinds and structural risks

Demand: consumer spending steady or slowing in major markets

Weaker momentum in key drivers will curtail spending growth

CONSUMPTION DRIVERS

UNEMPLOYMENT RATE

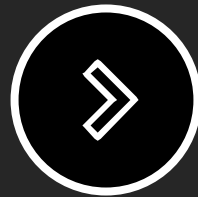
Rising in the US and Europe, but holding relatively steady in China and Japan

REAL WAGE GROWTH

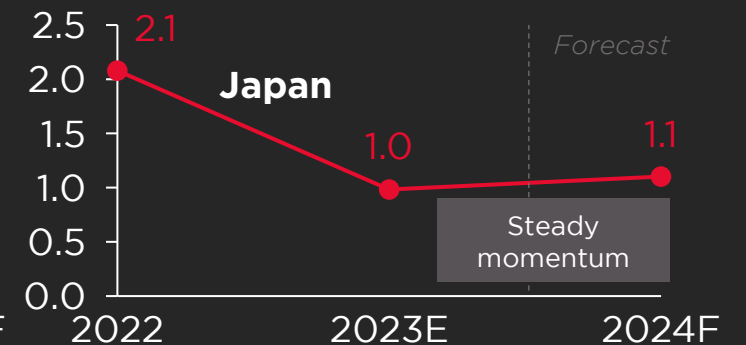
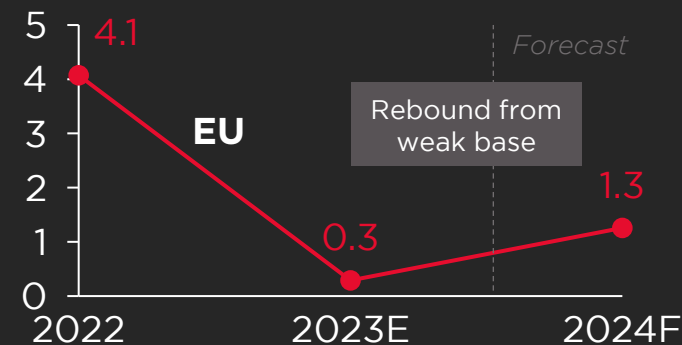
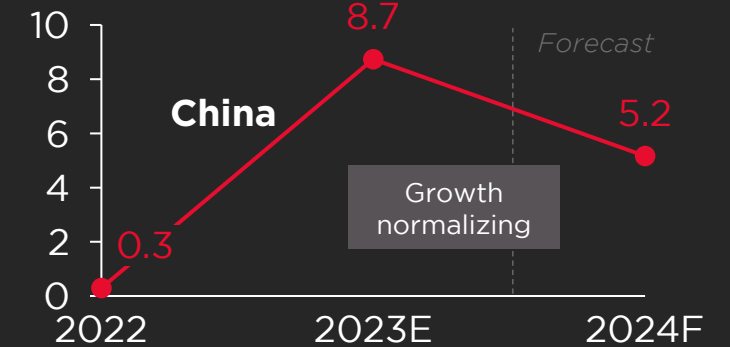
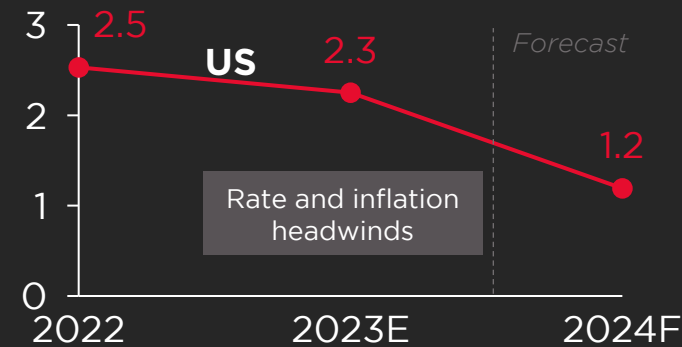
Expected to increase in China by about 4.5% in 2024, but likely to contract in the US, EU, and Japan

CONFIDENCE

Declining in the US and EU; holding steady in Japan; and coming off the Summer 2023 bottom in China



REAL CONSUMER SPENDING YOY % CHANGE



Investment: companies' capex continues to face headwinds

Cost of investment will decline, but not enough to offset weak demand

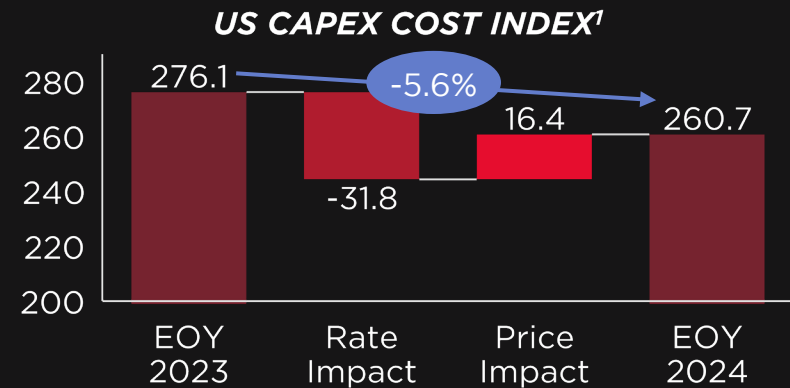
CAPEX DRIVERS

DEMAND-SIDE

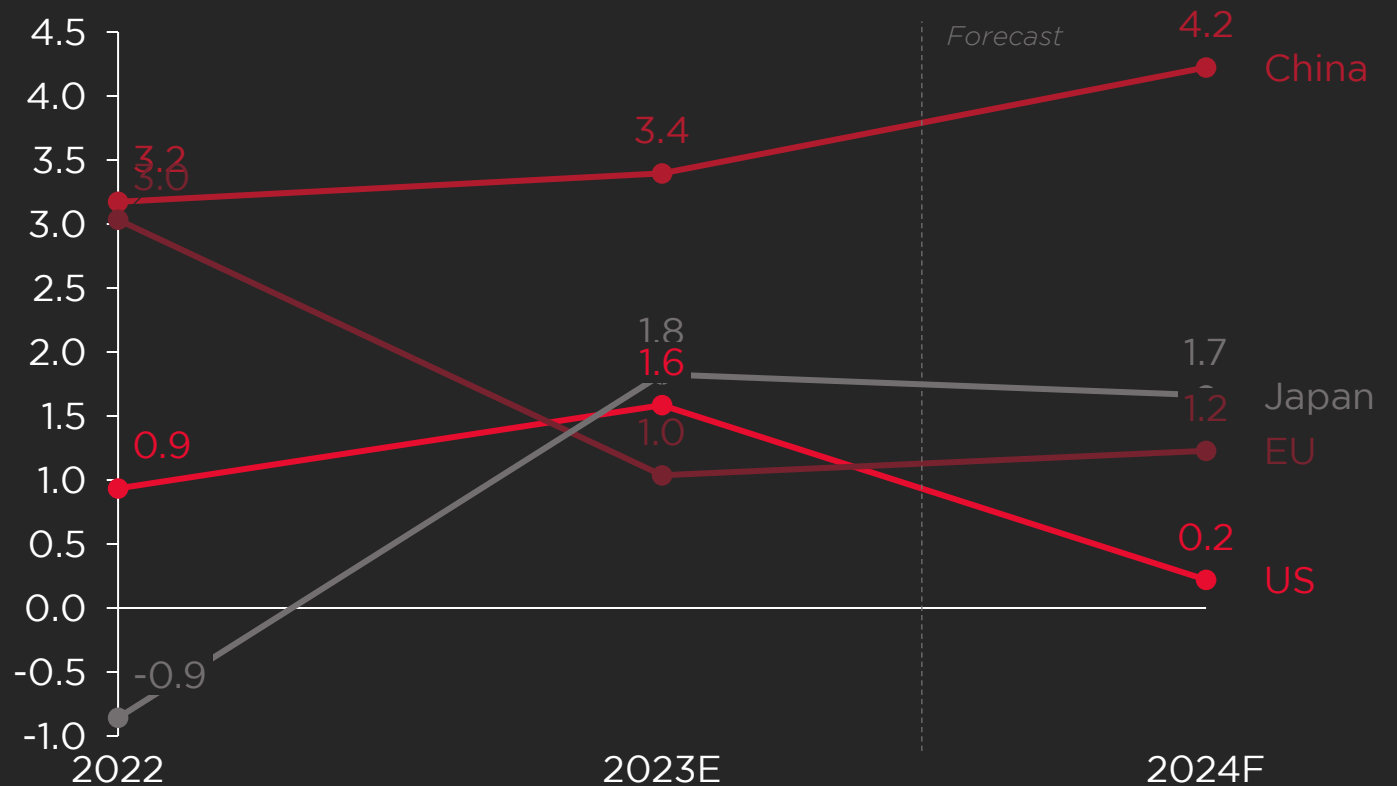
- Slow growth across all regions
- Recession uncertainty remains high in US, EU

COST-SIDE

- Capex costs declining across most markets
- Ex: capex costs in the US will fall by 5.6% by the end of 2024 driven by falling rates



REAL FIXED INVESTMENT YOY % CHANGE



(1) Onyx's forward-looking index of amortized capital costs based on corporate lending rates and capital goods price indices.

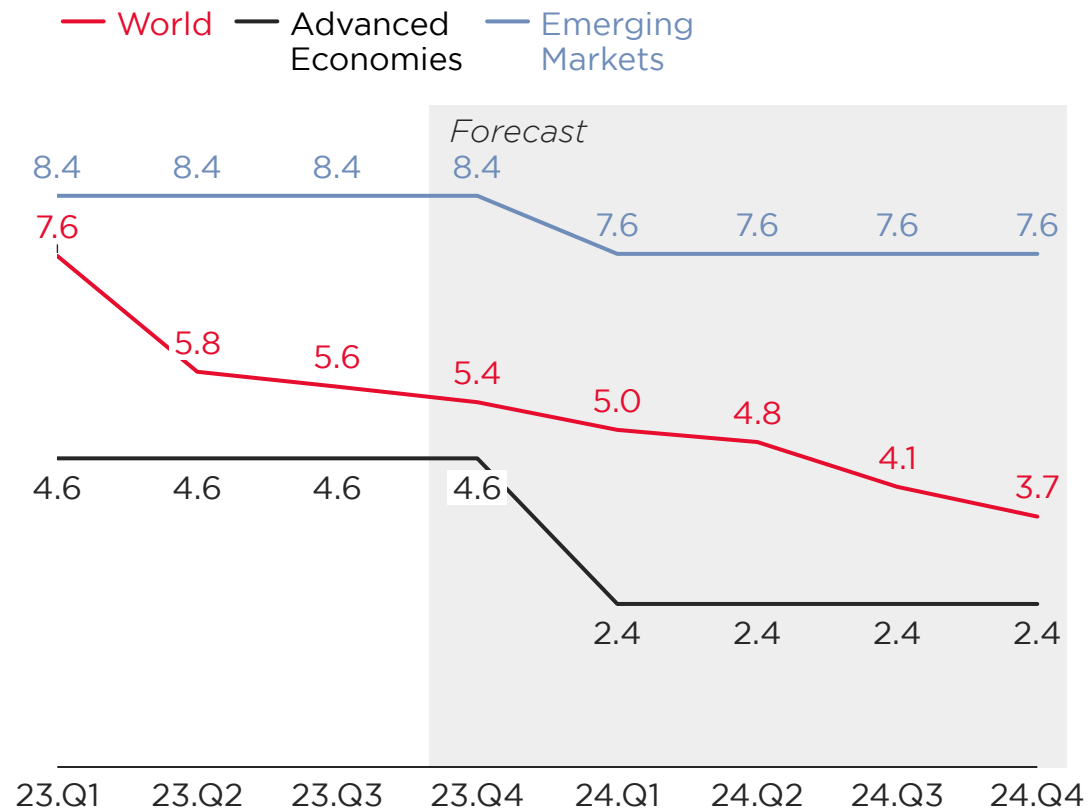
Source: Oxford Economics, Bloomberg, Onyx

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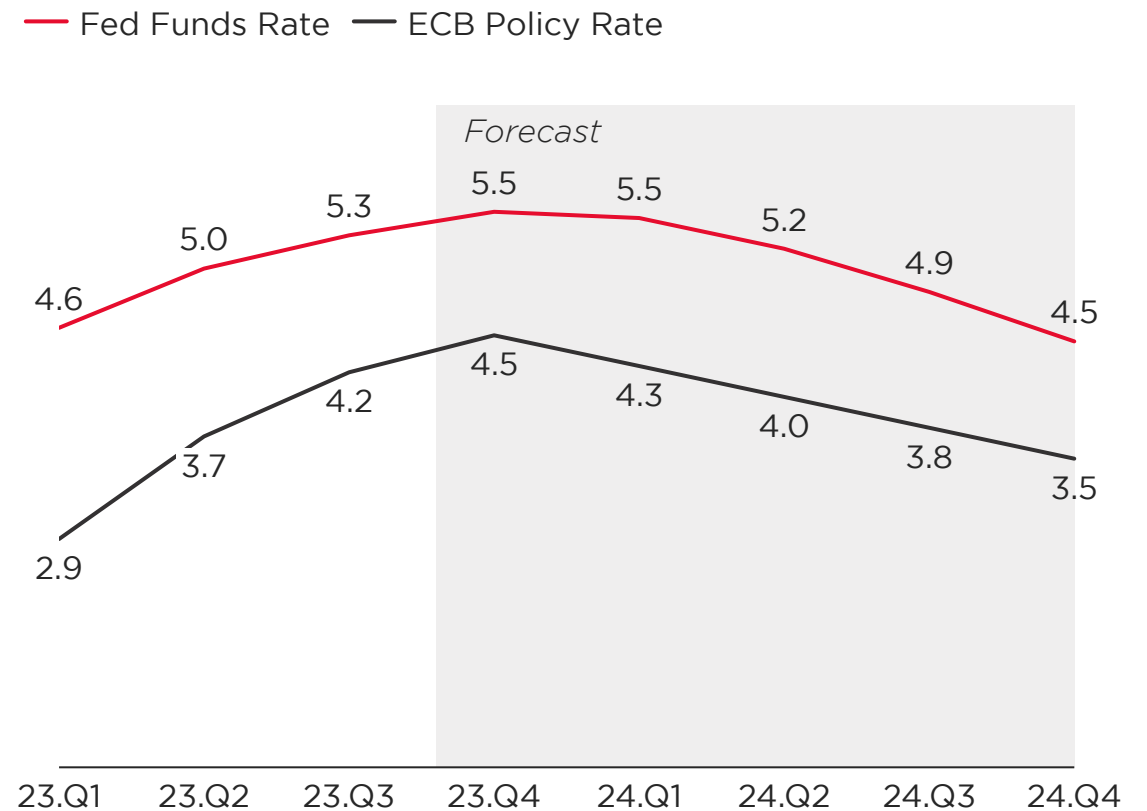
Global inflation easing, central banks will keep on the brakes

Interest rates to remain higher-for-longer, notwithstanding a recession

GLOBAL INFLATION RATES NORMALIZING HEADLINE CPI YOY % CHANGE



BUT RATES WILL STAY HIGHER FOR LONGER PERCENT (%)

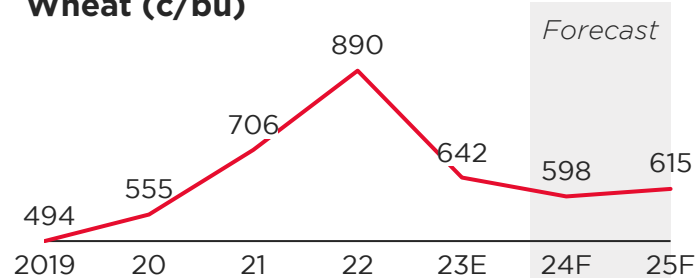


Inputs: basic goods prices still elevated compared to pre-COVID

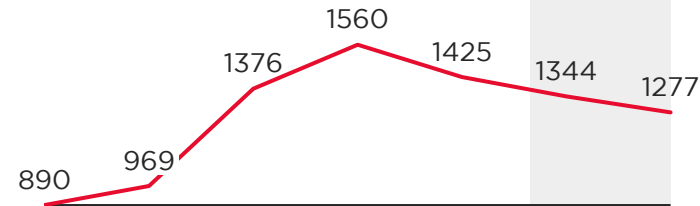
Down from 2022 peak, but still well-above pre-pandemic norms

COMMODITY PRICE FORECAST

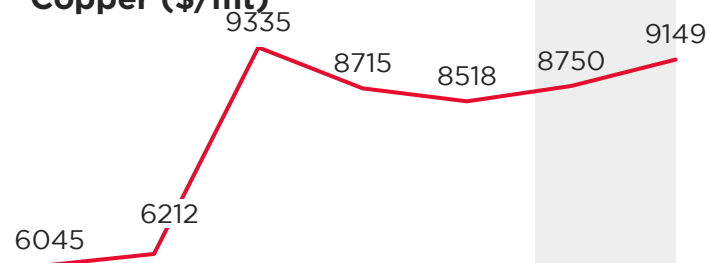
Wheat (c/bu)



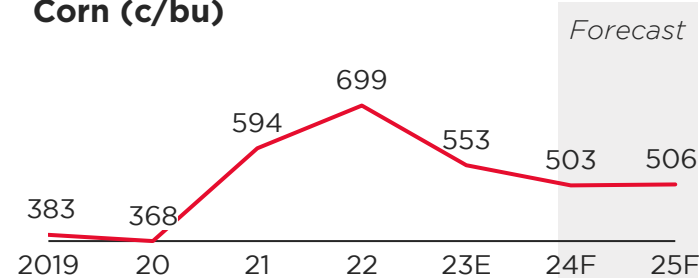
Soybeans (c/bu)



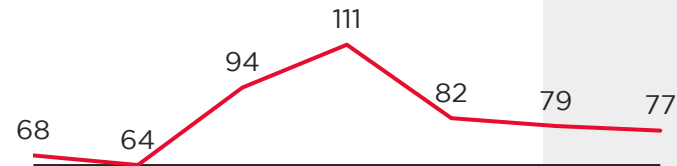
Copper (\$/mt)



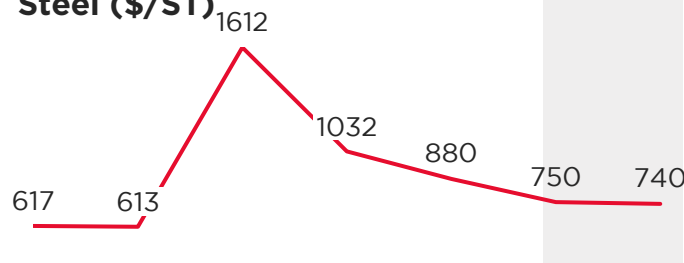
Corn (c/bu)



Cotton (c/lb)



Steel (\$/ST)



KEY POINTS

Agriculture prices ease in 2024

- Rising supply meets soft demand
- Post-El Nino weather will support production in SE Asia, India, Australia, and Africa
- Ukraine supply improving but exports are down due to Russian attacks on key export points

Metals & Mining market-specific trends

- Overall demand expected to remain sluggish in H1 2024 given the macro backdrop
- EVs and infrastructure build-outs will underpin demand, particularly copper
- Underinvestment and persistently high capital costs will keep supply constrained

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II. **Supply Chain Risks and Opportunities** The early stages of redefining global value chains

II.I. Spotlight on logistics

- III. Looming Geopolitical Risks
Unresolved crises, premium on risk management

Companies are de-risking supply chains

There are a variety of drivers, including evolving ESG pressures

SUPPLY CHAIN DE-RISKING STRATEGIES DRIVEN BY VARIED OBJECTIVES

STRATEGY	DEFINITION	REDUCED SOURCES OF RISK	NEW SOURCES OF RISK
FRIENDSHORING	<ul style="list-style-type: none"> Moving to allied and geopolitically friendly countries 	<ul style="list-style-type: none"> Reduced exposure to US-China tensions Avoid trade barriers Improved ESG 	<ul style="list-style-type: none"> Continued reliance on China's Tier 2+ value chain Uncertainty in US international
NEARSHORING	<ul style="list-style-type: none"> Moving to countries much closer to end-markets 	<ul style="list-style-type: none"> Closer to demand Equal/Lower costs Avoid trade barriers Improved ESG 	<ul style="list-style-type: none"> Potential logistics limitations in developing economies Increased competition between China and new sourcing regions Exposure to new macro and geopolitical risks Continued reliance on China's Tier 2+ value chain
RESHORING	<ul style="list-style-type: none"> Moving production to end-markets 	<ul style="list-style-type: none"> Lower geopolitical risk Closer to demand Avoided trade barriers Improved ESG 	<ul style="list-style-type: none"> Labor costs and immigration policy uncertainty Political swings in policy environment Continued reliance on China's Tier 2+ value chain

Countries are using policy to compete for foreign capital

ASEAN, India utilizing industrial policy and trying to close the infrastructure gap

INVESTMENT ATTRACTIVENESS OF COUNTRY POLICIES V. CHINA FROM FOREIGN INVESTOR PERSPECTIVE



Decreases attractiveness Neutral Increases attractiveness

POLICY AREAS	VIETNAM	MALAYSIA	THAILAND	INDONESIA	INDIA	MEXICO
LABOR	6% increase of minimum wage	Manufacturing – 80% of workforce be Malaysians	Minimum wage increase to \$10.41/day	Minimum wage up by 3-4%	May implement business-friendly labor reforms	20% minimum wage increase
INDUSTRIAL AND INCENTIVES	Bolster supporting industries	New Industrial Master Plan	Domestic EV subsidy	Downstreaming mining and other sectors	Additional \$2.2 billion under PLI scheme	No significant new incentives
TRADE AND TARIFFS	FTA with Israel	Will benefit from ASEAN-China FTA upgrade	EFTA, UAE, and Sri Lanka FTAs	Commodity export bans	EFTA FTA	Slight increase in import barriers
INFRASTRUCTURE	Ben Luc – Long Thanh Expressway	Transportation projects	Eastern Economic Corridor	Energy and transport projects	Aim to upgrade highway infrastructure	No significant infrastructure investments
TAXES	Minimum CIT of 15% following OECD GMT	Increase GST and new capital gain tax	Tax break for investment in smart cities	0% export duty and VAT for onshore EVs	Capital gain tax likely to rise	No significant change in tax regime
ESG	No clear action plan	Budget allocation for energy transition projects	Passing climate change law in 2024	Mobilize JETP funding	ESG disclosure for top 250 listed Indian firms	No clear action plan

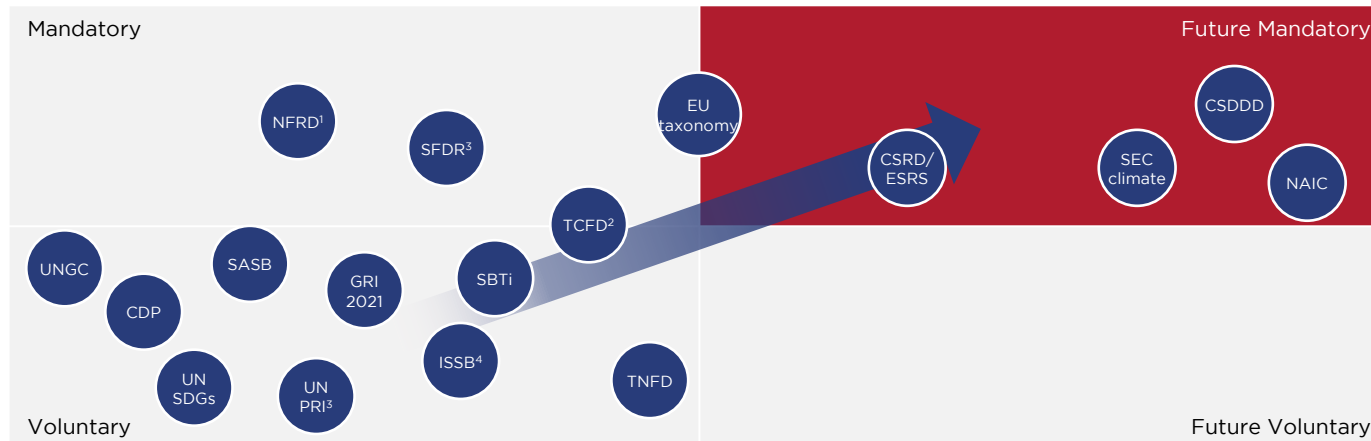
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However, a wave of ESG disclosure regulations is coming

Shining a spotlight on supply chain ESG performance

ESG FRAMEWORKS AND REPORTING SHIFTING TO MANDATORY



CDP	Former Carbon Disclosure Project	SBTi	Science-Based Targets Initiative
CSDDD	Corp. Sustainability Due Diligence Directive	SEC Climate	US SEC Climate Risk Disclosure Rules
CSRD	Corporate Sustainability Reporting Directive	SFDR	EU's Sustainable Finance Disclosure Regulation
ESRS	European Sustainability Reporting Standards	TCFD	Task Force on Climate-Related Financial Disclosures
GRI 2021	Global Reporting Initiative's Standards 2021	TNFD	Taskforce on Nature-Related Financial Disclosures
ISSB	International Sustainability Standards Board	UN PRI	UN's Principles for Responsible Investment
NAIC	NAIC's Climate Risk Disclosure Survey	UNGC	UN Global Compact
NFRD	Non-Financial Reporting Directive	UN SDGs	UN's Sustainable Development Goals
SASB	Sustainability Accounting Standards Board		

1 NFRD replaced by CSRD in FY2024
 2 Mandatory depending on multiple factors including type of entity, country and industry
 3 Financial services industry only
 4 ISSB consolidated with the Value Reporting Foundation and SASB

WHAT THE EU'S CSRD MEANS FOR SUPPLY CHAINS

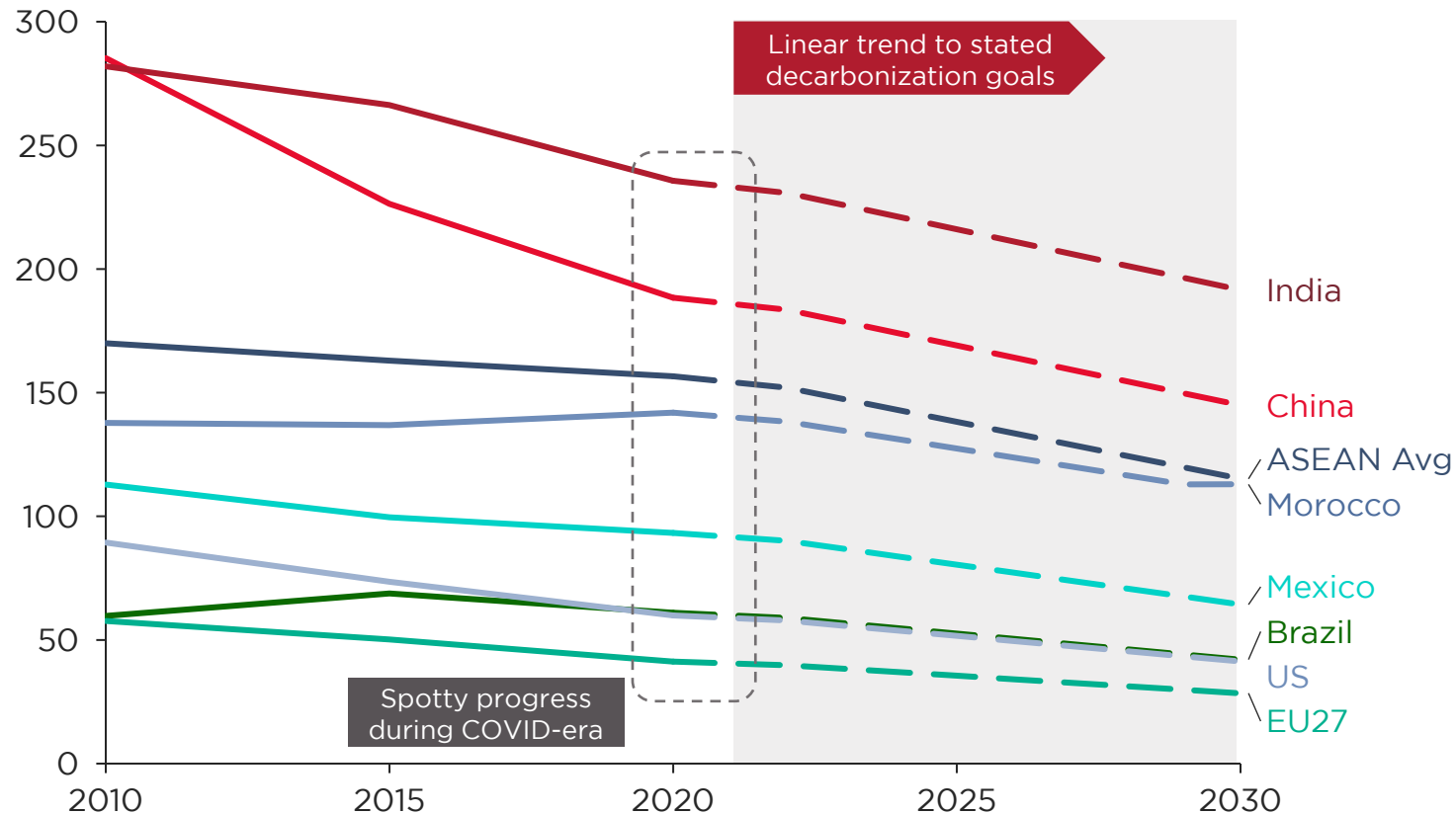
- **Enlarged scope** to cover more companies, including non-EU based entities
- **Increased transparency in ESG performance** across the entire value chain, including two important requirements:
 - Double materiality assessments
 - Reporting of Scope 1, 2, and 3 emissions
- **Enhanced scrutiny** particularly in the EU as regulators will have the ability to fine companies that fail to comply with regulations
- Amid increased investor **pressure to decarbonize** supply chains, companies will **face trade-offs between low cost and ESG performance**

While decarbonization efforts are moving slowly

Sourcing regions struggling to keep pace with climate goals

COUNTRY-LEVEL CARBON INTENSITY STAGNATING

CO2 PER UNIT OF GDP



DECARBONIZATION OUTLOOK FOR KEY SOURCING REGIONS

CHINA: EARLY SUCCESS

- Will hit 2030 emissions targets by 2025 with new renewable energy capacity
- But persistent concerns over energy security are driving **coal build-out**

ASEAN-6: VARIED SUCCESS

- Singapore, Thailand, and Malaysia will lead the pack - **solar power development, low-carbon power import, and carbon taxes** will emerge as key strategies
- Indonesia, Philippines, and Vietnam are the laggards

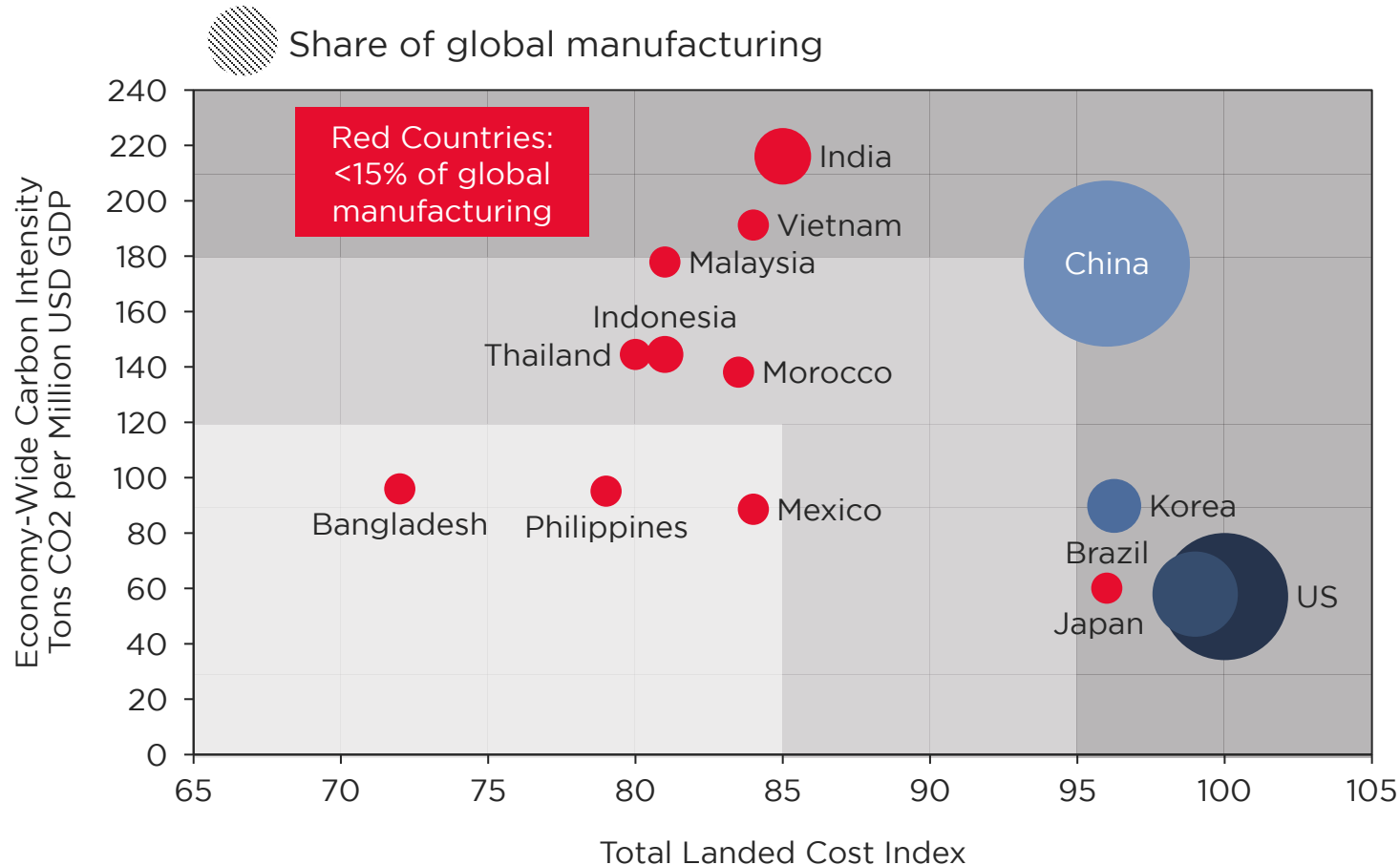
MEXICO: ONCE A LEADER, BACKSLIDING

- Under AMLO there will be little change in climate backsliding and underperformance against stated objectives

Setting the stage for a showdown between ESG and cost

Companies pressured to reposition supply chains to achieve ESG goals

TOTAL LANDED COST AND CARBON INTENSITY



LIMITED ALTERNATIVES

- China's manufacturing base is more than 2x the size of ASEAN, India, Brazil and Mexico combined
- Companies must invest heavily in new capacity paired with renewable energy

EMs DUAL CHALLENGE

- Historically, industrialization has come with emissions
- Emerging Markets will need to grow their manufacturing base while simultaneously decarbonizing

LOW-HANGING FRUIT

- Renewable power is the most scalable and economically viable solution
- Decarbonizing heavy industrial processes requires carbon costs of \$50 to \$100 per ton or more

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Oil prices likely flat in 2024, but geopolitical risks loom

Demand fears, limited supply growth, and OPEC will keep a floor under prices

OIL DEMAND FACES MACRO HEADWINDS

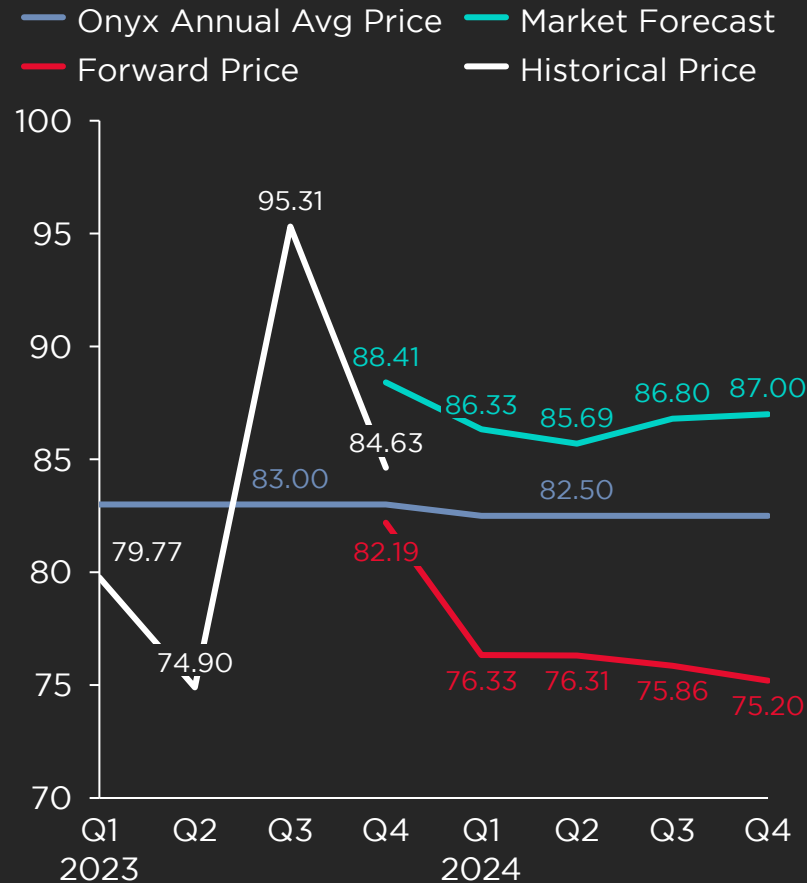
- Global demand growth slowing
- Emerging Markets to drive demand
- US and Europe are combined net neutral
- Paradigm shift: 65% of additional demand will come from economic growth, while only 35% will come from jet market normalization—the opposite of prior years

OPEC WILL MAINTAIN PRICE FLOOR

- Global supply to keep pace with demand, maintaining status quo market balance
- Most growth will come from the US and South America
- OPEC+ alliance will maintain production constraints to keep a floor under prices
- Oil majors' capex budgets increasing marginally, points to limited organic growth potential

BRENT CRUDE OIL PRICE FORECAST

\$/BARREL



PRICE RISK TILTED TO THE DOWNSIDE

- Stronger than expected economic growth
- Geopolitical risks escalate: Israel-Hamas, Russia-Ukraine
- US, European recession
- China slowdown
- OPEC+ alliance non-compliance, or Saudi and Russia bring back production to drive discipline and create future optionality

Ocean carrier market shake-up amid supply glut

Impact of CBER will be muted, with more changes coming in 2025

WHAT IS CHANGING?

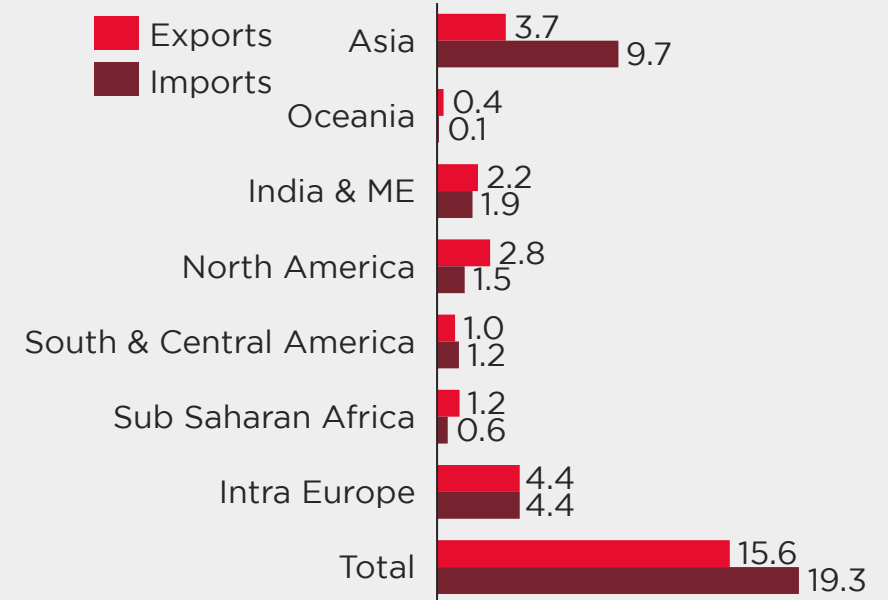
- From April 25, 2024 smaller carriers (with combined market share below 30%) will no longer be able to provide joint cargo services as protected under CBER
- A similar rule has been proposed in the US
- Moreover, the 2M Alliance will come to an end in 2025

IMPACT ON MARKETS

- Revoking CBER maintains high barriers to entry
- VSAs allowed but legal ambiguity may dissuade new agreements
- Risk that capacity reshuffling could reduce service levels, raising implicit costs
- Emerging capacity glut may provide a counter-balance

EU CONTAINER VOLUMES AFFECTED

% SHARE OF GLOBAL TEU VOLUME, BASED ON JAN-SEP 2023

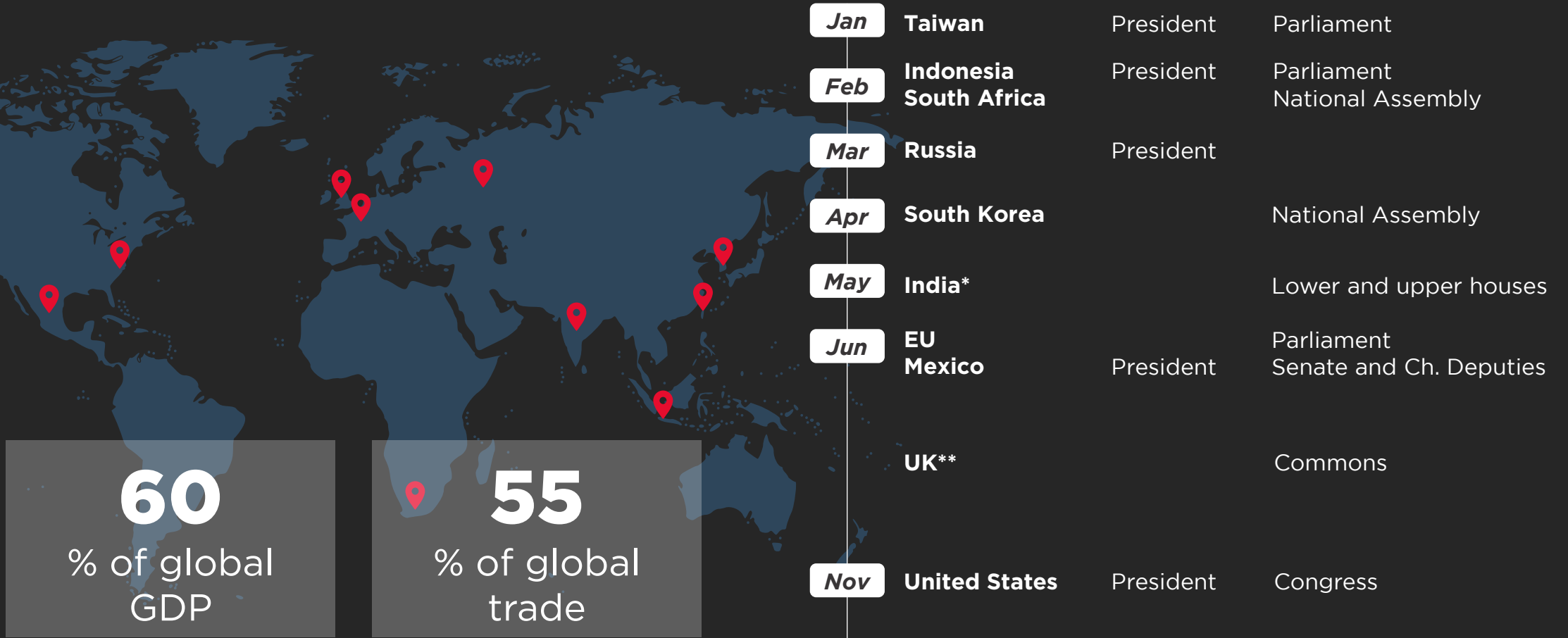


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An unprecedented wave of major elections in critical regions

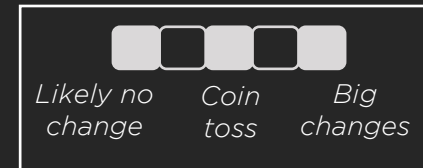
Results will determine fundamental policy choices impacting geopolitics and supply chains



* April-May
** No later than Jan 2025

Civil unrest a key concern; severe direction changes unlikely in most places

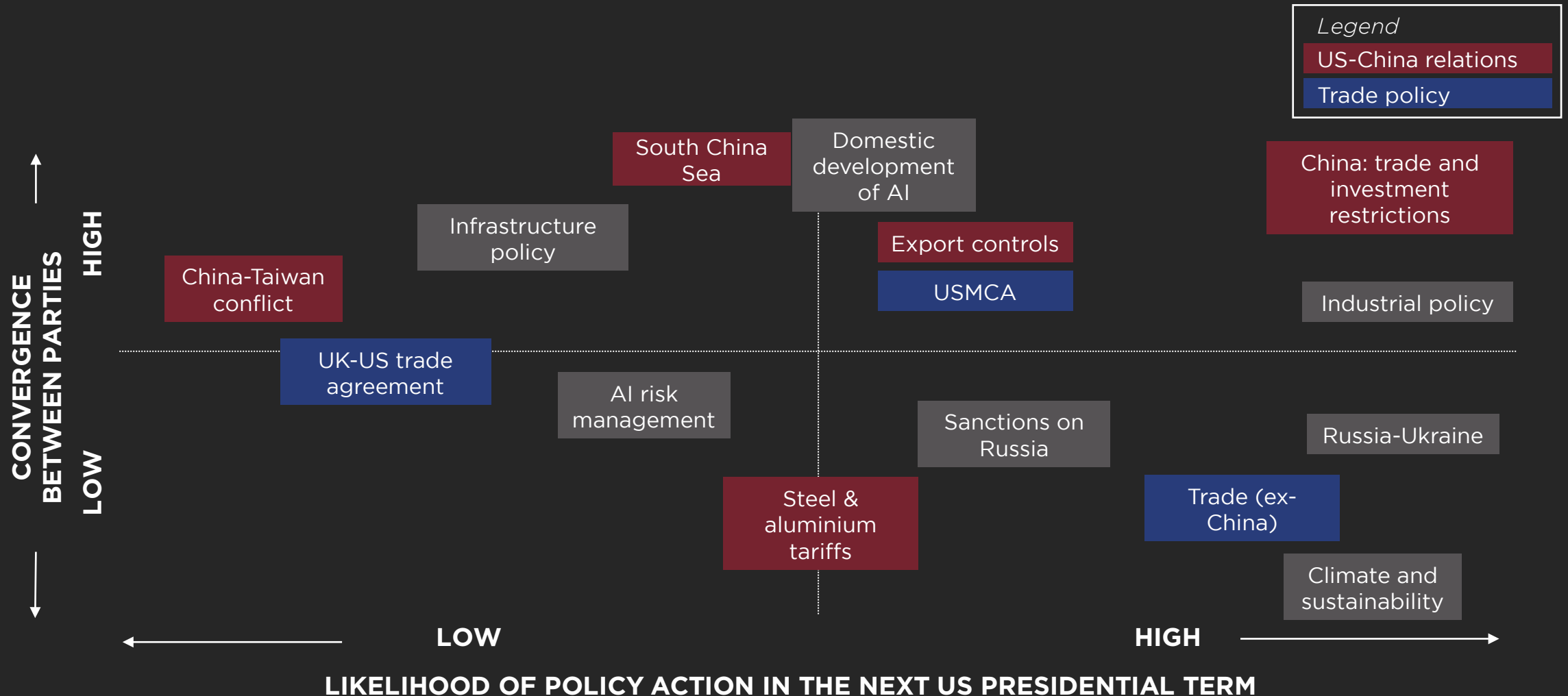
US industrial policy and green subsidies a notable exception



Region	Key election issues for supply chains	Change in existing policy direction following elections			
		Trade and tariffs	Industrial & subsidies	Labor regs	Infrastructure
US	<ul style="list-style-type: none"> Civil unrest, US-China, sustainability, reshoring 	█ □ □ □ □	□ □ █ □ □	█ □ □ □ □	□ □ █ □ □
Mexico	<ul style="list-style-type: none"> Civil unrest, security, labor policy, renewables 	█ □ □ □ □	█ □ □ □ □	█ □ □ □ □	█ □ □ □ □
India	<ul style="list-style-type: none"> Civil unrest, identity politics, Western backlash 	□ □ █ □ □	□ □ □ █ □	□ □ □ █ □	□ □ □ █ □
Indonesia	<ul style="list-style-type: none"> Improving connectivity and ease of doing business; and focusing on downstreaming 	□ □ █ □ □	□ □ □ █ □	□ □ □ █ □	□ □ █ □ □
S. Korea	<ul style="list-style-type: none"> Trade/investment relations with Japan, China, US 	█ □ □ □ □	█ □ □ □ □	█ □ □ □ □	█ □ □ □ □
Taiwan	<ul style="list-style-type: none"> Industry competitive advantage; US-China 	█ □ □ □ □	□ □ □ █ □	█ □ □ □ □	█ □ □ □ □
Russia	<ul style="list-style-type: none"> Civil unrest; turnout a barometer of support for Ukraine war 	█ □ □ □ □	█ □ □ □ □	█ □ □ □ □	█ □ □ □ □

US election spotlight: what's at stake?

US-China tensions are given, trade policy could experience wide swings



Policy spotlight: a struggle to find common ground on AI

EU AI Act likely to be first significant piece of legislation enacted

KEY POLICY PROPOSALS BY GOVERNMENT PRIORITY

Geography	Encourage Development and Adoption	Mitigate Risks
US	CREATE AI Act (2023) National AI Initiative Act (2020)	Executive Orders (2020-2023) NIST Framework (2023) OSTP AI Bill of Rights (2022)
EU	Member state national AI strategies (E.g. France)	EU AI Act (projected 2024)
China	New Generation Artificial Intelligence Development Plan (2017)	Algorithm regulations (2022) Deep Synthesis Technology (2022) Generative AI Measures (2023)

PASSAGE OF EU AI ACT WILL PUNCTUATE 2024

- Trilogue agreement reached
- European Parliament approval
- Member state approval

Potential sticking points

- Definition of AI
- Prohibited use cases
- Requirements for high-risk systems
- Requirements for foundation models
- Law enforcement use of AI
- Enforcement

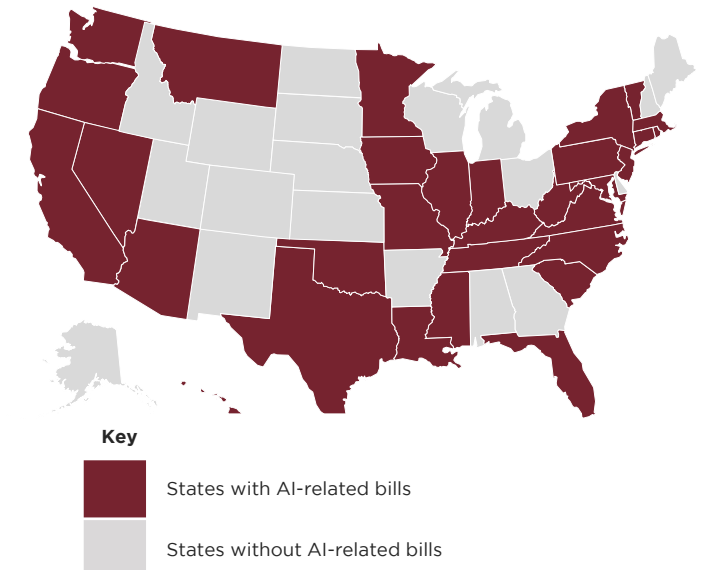
Signpost to Watch

- Pot. delayed if disagreements re-emerge on the above points prior to European elections in 2024; law to come into effect in 2025
- Tech advancements that complicate existing agreed-upon regulations

US ACTION WILL BE AT THE STATE LEVEL

- Federal-level proposed legislation is **non-comprehensive** and addresses individual components of regulating AI including transparency, funding for R&D, and use of AI in government

2023 AI Legislation - US States



Geopolitical fault lines remain active in the meanwhile

Trending from status quo to escalation; all scenarios still on the table for Israel-Hamas

KEY SCENARIOS AND SIGNPOSTS

 *Current trend*

GEOPOLITICAL FAULT LINE	DE-ESCALATION	STATUS QUO	ESCALATION
RUSSIA-UKRAINE	<ul style="list-style-type: none"> Both parties see room for an acceptable political compromise 	<ul style="list-style-type: none"> Military power and resources relatively balanced between both parties 	<ul style="list-style-type: none"> One or both parties sees complete victory as a matter of survival Balance of military resources tilts in favor of one of the parties
BALKANS	<ul style="list-style-type: none"> Pro-European voices capture or retain popular support 	<ul style="list-style-type: none"> Both sides relatively evenly matched 	<ul style="list-style-type: none"> Nationalist voices capture or retain popular support
SOUTH CHINA SEA	<ul style="list-style-type: none"> All parties see room for an acceptable political compromise 	<ul style="list-style-type: none"> Claims remain unresolved, but economic cooperation takes precedence 	<ul style="list-style-type: none"> US security umbrella falters Accidents leading to military action One or more parties believes it can prevail with acceptable economic costs
CHINA-TAIWAN	<ul style="list-style-type: none"> All parties see room for an acceptable political compromise 	<ul style="list-style-type: none"> Independence not pressed publicly 	<ul style="list-style-type: none"> US security umbrella falters Accidents leading to military action One or more parties believes it can prevail with acceptable economic costs
ISRAEL-HAMAS	<ul style="list-style-type: none"> Israeli aims include negotiated solution External support for militants waivers Global powers united in containing conflict 	<ul style="list-style-type: none"> Israeli military aims confined to Gaza External support for militant groups limited to avoid direct involvement 	<ul style="list-style-type: none"> Israeli military aims include other countries in the region, esp. Lebanon, Syria Conflict widens to include unresolved issues in other countries in the region

Global supply chain impacts contained for now

Prepare for hot spots to flare up, but with manageable market volatility

SUPPLY CHAIN RISK EXPOSURE TO GEOPOLITICAL FAULT LINES

GLOBAL EXPOSURE BEYOND LOCAL OPERATIONS; IMMEDIATE EFFECTS ONLY; EXCLUDES GLOBAL CONFLICT-TYPE ESCALATIONS

 Current trend

GEOPOLITICAL FAULT LINE	INPUTS	SOURCING AND PRODUCTION	DISTRIBUTION AND LOGISTICS	END MARKETS
RUSSIA-UKRAINE	<ul style="list-style-type: none"> Key minerals (titanium, nickel, cobalt, platinum, aluminum) Fertilizers and wheat 	<ul style="list-style-type: none"> Europe's energy costs Disruptions near the border with EU (escalation scenario) 	<ul style="list-style-type: none"> Fuel price volatility 	<ul style="list-style-type: none"> Inflationary pressure esp. in Europe Disruptions near the border (escalation scenario)
BALKANS		<ul style="list-style-type: none"> Potential disruption in Europe (escalation scenario) 		
SOUTH CHINA SEA	<ul style="list-style-type: none"> All regional exports affected (escalation scenario) 	<ul style="list-style-type: none"> All regional production affected (escalation scenario) 	<ul style="list-style-type: none"> Fuel prices/rate volatility and major lane disruption (escalation scenario) 	<ul style="list-style-type: none"> Global crisis (escalation scenario)
CHINA-TAIWAN	<ul style="list-style-type: none"> All regional exports affected (escalation scenario) 	<ul style="list-style-type: none"> Major disruption of semiconductor supplies (escalation scenario) 	<ul style="list-style-type: none"> Rate volatility and major lane disruption (escalation scenario) 	<ul style="list-style-type: none"> Global crisis (escalation scenario)
ISRAEL-HAMAS			<ul style="list-style-type: none"> Fuel price volatility Major lane disruption (Suez, Bab el-Mandeb, Hormuz) (escalation scenario) 	

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US or China domestic crises could fundamentally alter the trajectory

Global powers' domestic politics at the center of top risks in 2024

TOP GLOBAL RISKS BY SCENARIO AND POTENTIAL IMPLICATIONS

		US		
		Business as usual	Major political or constitutional crisis	
CHINA	Economy limps along or recovers	<ul style="list-style-type: none"> Continuation of ongoing trends 	<ul style="list-style-type: none"> Potential retreat of US security umbrella Escalation of geopolitical fault lines Potential for major supply chain disruption 	<ul style="list-style-type: none"> Risk of global financial crisis affecting primarily demand
	Major financial or economic crisis	<ul style="list-style-type: none"> Scaling back or pause in China's regional and global ambitions Spillover onto regional and other EM economies export-dependent on China Bankruptcies affect global sourcing and production 		<ul style="list-style-type: none"> Risk of global financial crisis affecting supply and demand

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