

## IMF ducks big issues

Improved mining industry fortunes now depend on Donald Trump skilfully husbanding tax cuts through the US Congress, Theresa May adeptly negotiating a favourable Brexit pact and Xi Jinping cutting back runaway lending while sustaining Chinese growth. What's the chance?

John Robertson\* | 18 Oct 2017 | 22:06 | Opinion



*Theresa May and Donald Trump, along with China's Xi Jinping, will dictate the fortunes of global GDP in the near-term*

The International Monetary Fund released its half-yearly World Economic Outlook last week to coincide with the world's finance ministers gathering in Washington. The fund's upgrade of the global growth outlook ostensibly contained some of the best news for the mining industry since 2010.

Movements in raw material demand are closely tied to world growth and, more particularly, to the momentum of growth. The strongest increases in metal usage typically occur when global GDP growth is accelerating.

Rising growth projections are usually a positive sign for the mining sector. It offers strategists firmer analytical grounds for raising sectoral fund allocations.

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The IMF announced on October 10 that it had raised its forecast for global growth in 2017 to 3.6% from 3.4% at the time of the corresponding forecast round last year and after a 3.2% expansion of the global economy in 2016. The change for 2017 – the largest upgrade since an initial forecast of 4.5% in 2013 – follows a succession of negative revisions.

The good news is that the macroeconomic risk profile has shifted significantly in favour of the mining industry.

The not so good news is that 2017 is nearly as good as it gets in the eyes of the fund. The positive momentum on which strengthening growth in raw material demand relies is almost non-existent.

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*"Chinese authorities face one of the biggest tests of their abilities in 20 years"*

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Among the advanced economies, growth by 2022 is expected to be 0.5 percentage points lower than in 2017 as economic slack is eliminated. Chinese growth is expected to decline by a full percentage point.

Any global growth improvement is expected to come entirely from emerging market economies outside China in Latin America, the Middle East and sub-Saharan Africa.

The most egregious risks have been eliminated but the forecasts imply growth in metal demand running below historical averages.

Of course, the IMF may be wrong. Having overestimated growth earlier in the cycle, forecasting conservatism might now be forcing errors in the opposite direction.

Despite the IMF's impressive analytical firepower, its latest forecasts might have also been compromised by subtle political pressures.

Maurice Obstfeld, the fund's head of research, inadvertently let the cat out of the bag when briefing the press last week about the fund's views.

Pushed by journalists to opine on policy settings and likely outcomes in the UK, the US and China, Obstfeld was uncomfortably circumspect as he sought to avoid saying anything newsworthy about these prominent fund members.

Obstfeld knows that tax changes in the US, post-Brexit policy in the UK and how China restores control over an obviously unsustainable flood of liquidity will prove critical in framing economic outcomes over the coming five years.

Most often, assuming an unchanged policy mix, or an average of recent outcomes, is a reasonable enough working assumption on which to base medium-term forecasts. In this instance, Europe, the US and China are on the edge of directional shifts in growth as potentially momentous policy predicaments coincide.

Trump and Republican Party members in the US Congress offer the greatest chance of upside surprise. With only 28 days left in this year's House of Representatives calendar, we will know shortly whether they can take advantage of the opportunity.

Earlier in the year, the fund had been prepared to give the new Trump administration the benefit of the doubt in framing its view about the future course of fiscal policy. The fund upped its forecasts in anticipation of higher infrastructure spending, lower taxes and less burdensome regulation.

Since then, as even members of the majority Republican Party have downscaled their legislative ambitions, the fund has backtracked to a, possibly optimistic, 'wait and see' position.

Realistically, Europe, China and the US could all come up with something worse than what is implied by the middle-of-the-road assumptions the IMF is currently contemplating as its base.

In Europe, Brexit looms. The fund's assumption of growth drifting back due to weak productivity and unfavourable demographics optimistically ignores the possibility of growth slumping badly in the event disrupted trade patterns and supply chains retard business investment.

Brexit may yet prove advantageous for Europe and Britain but negotiations in the next few weeks will have to take a turn for the better if that possibility is to be realised.

China's policymakers have repeatedly balked at remedying the country's long-recognised reliance on loose lending policy settings to propel investment. While the higher growth has cheered investors, systemic risks have multiplied.

Obstfeld diplomatically credited the leadership with recognising the problem while conceding the obvious unsustainability of China's monetary policies.

Some commentators have speculated that Xi Jinping has avoided putting his growth target at risk leading up to the communist party congress this month where his anointment as possibly the most dominant national leader since Deng Xiaoping or Mao Zedong himself has been expected.

With party secretary Xi feeling more politically secure, action over the next two years looms larger as Chinese authorities face one of the biggest tests of their abilities in 20 years.

Chinese policymakers may well prove superior economic managers than their western counterparts but higher growth will be an accident. Success means moderately lower, albeit surer, Chinese growth. Failure will be a sharp descent as lending is restricted.

Recent metal-price strength has reflected modest improvements in growth outcomes helped along by extraordinarily cheap money and a US dollar decline of as much as 12% against its major trading partners.

As some of the most favourable monetary conditions in modern history are wound back, the mining industry will be relying more heavily on output growth and, for that, on the policy dexterity of Messrs Trump, Xi and May.

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