

Global Situation and Economic Outlook for 2025

~ A Shaken World Under New Structure ~

January 16, 2025

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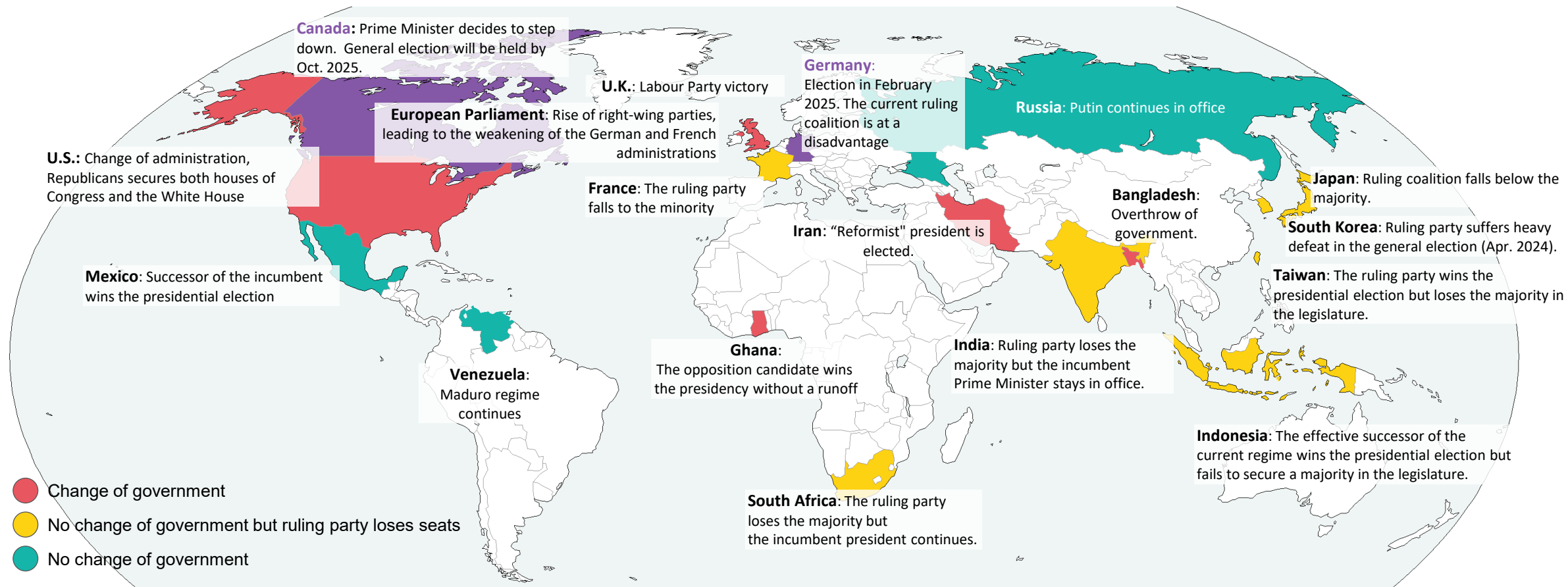
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01

Notable Issues Under the New Regime

"Election year" led to "the new political global structure "

- A large number of national elections were held in 2024. Even in cases without regime change, the ruling parties lost seats frequently.
- Under the "the New Political Global structure", national interests and concerns are prioritized, the lack of global unifying force will lead to instability.



(Source: Compiled by SCGR from CraftMap)

Where is the war in Ukraine heading?

- While the future Trump administration is keen on a truce for Ukraine, in the short term, the fighting for territorial control is intensifying. Solid peace deal is not easy, but Europe also seems to welcome a possible cease-fire between the two countries.
- Russian military alliance with China and Iran was joined by North Korea (China is concerned about North Korean troop dispatch). Russia increases presence in the grain market, etc.
- With slowing down of growth driven by the defense industry, rising inflation and labor shortages lead to harsh economic and living conditions in Russia, rising dissatisfaction with the results of the war among population

Military invasion in Ukraine

Trump's truce proposal: an immediate ceasefire on a current war-line?

- Russia's aggression will continue, risk of short-lived truce
- Risk of continued hybrid warfare, cyber-attacks, information operations, possible targeted assassinations. Could changes to the status quo by force be tolerated?



Western countries approve the use of long-range weapons against Russia by Ukraine (Source: Compiled by SCGR from CraftMap)

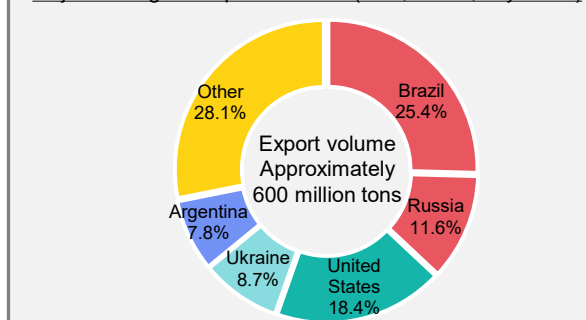
(Source: Compiled by SCGR from CraftMap)

Russian diplomacy

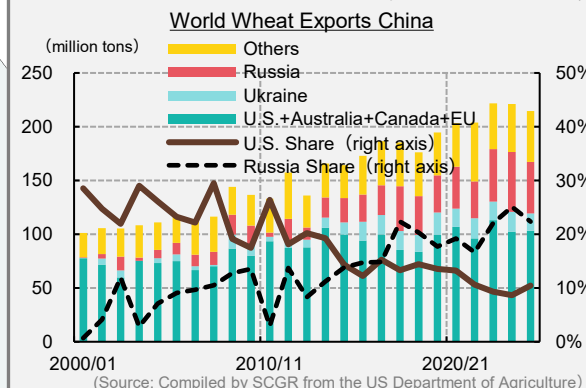
- Strengthens military and arms supplies cooperation with North Korea and Iran.
- China and India become the biggest importers of Russian oil.
- Russia's proposed grain exchange for BRICS countries.
- Considering export restrictions on critical minerals to non-friendly nations.
- Discouraging other "non-friendly nations" against political intervention.



Major world grain export volumes (corn, wheat, soybeans)



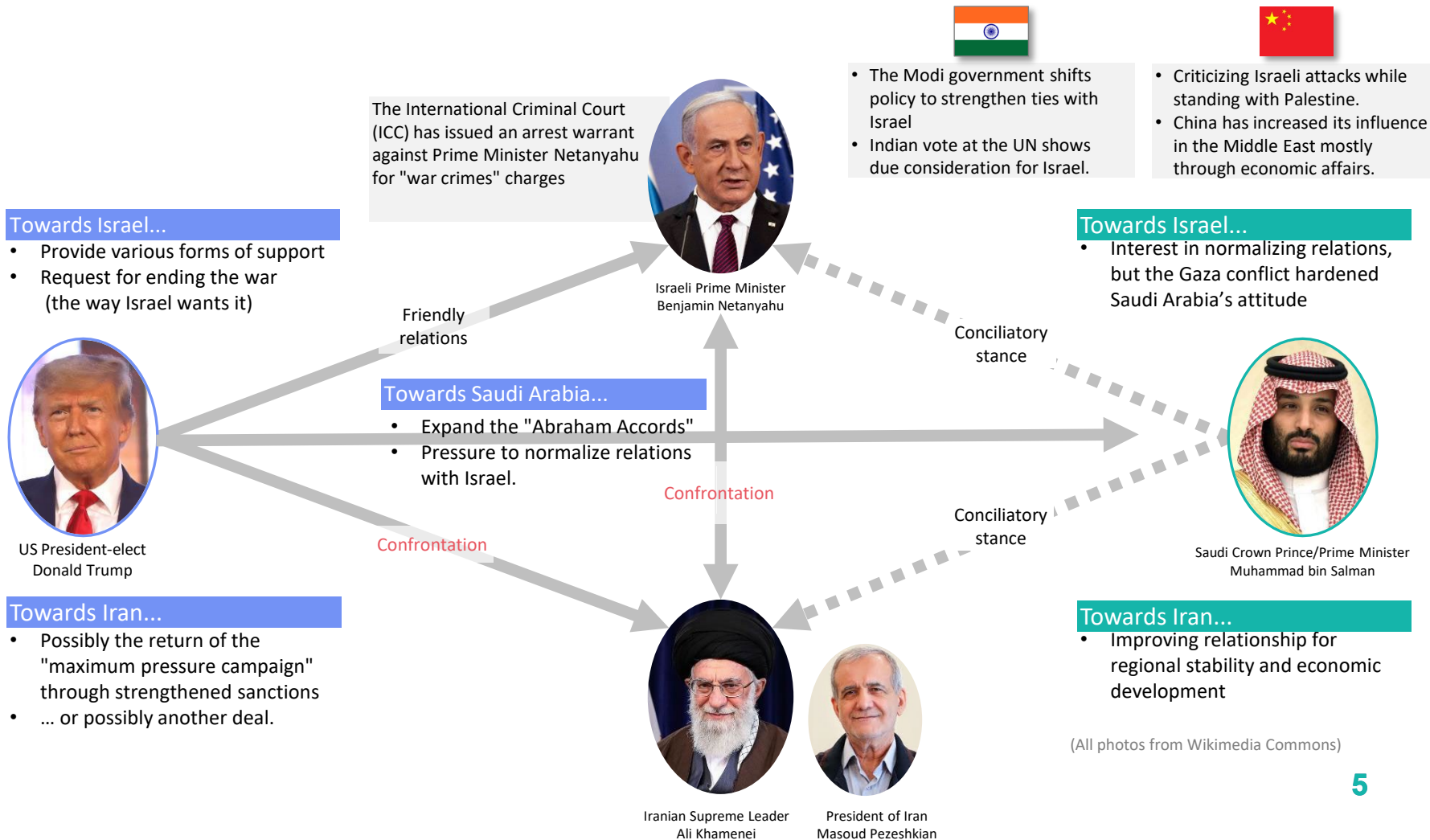
(Source: Compiled by SCGR from the US Department of Agriculture, export volume for 2023-2024)



(Source: Compiled by SCGR from the US Department of Agriculture)

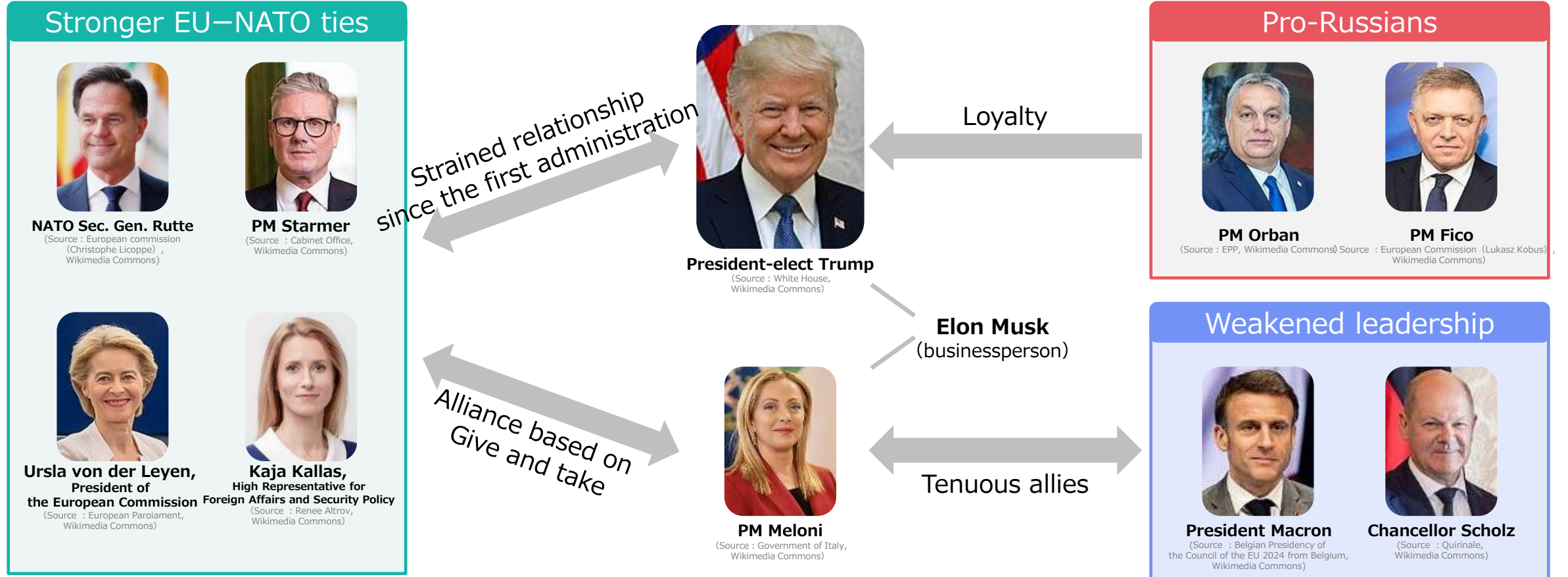
Will the ceasefire be realized in the Middle East? What happens next?

- Israel and Lebanese Hezbollah has agreed to a ceasefire.
- Trump administration will be more "pro-Israel and anti-Iran" (Secretary of State Rubio, National Security Advisor Waltz, Secretary of Defense Hegseth, etc.)
- Trump administration aims to achieve a ceasefire and expand "Abraham Accords" (normalization of relations between Saudi Arabia and Israel)
- Unresolved Palestinian issue, isolation of Iran, and the fall of Assad regime in Syria could invite new risk to the region.



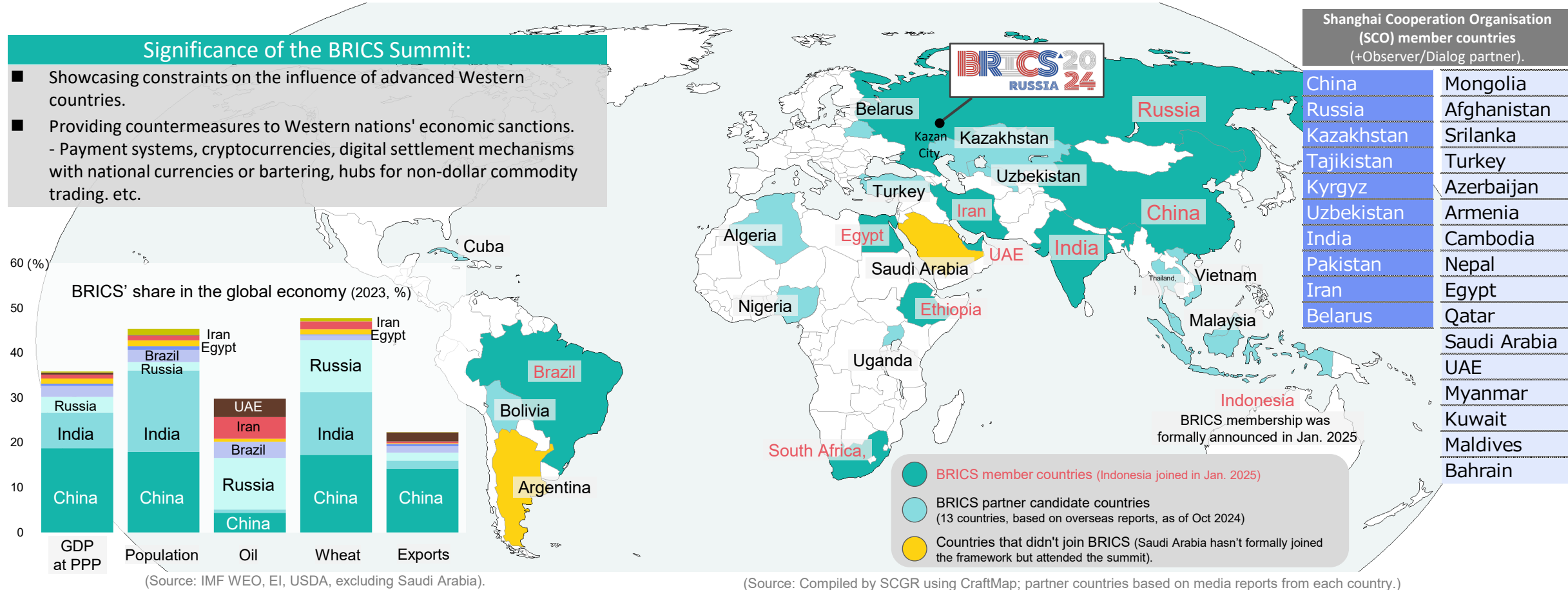
Weaker solidarity within the West (US-EU relations)

- Rift between the US and Europe due to tariffs, defence spending, and the reduction in support for Ukraine.
- Bolstering the EU-NATO ties, aka, European Pillar, under the leadership of NATO Sec Gen Rutte.
- A lack of united front, due to stronger relationship between pro-Russian Hungary/Slovakia and Trump, and weakened leadership in Germany and France.



Challenges to the Western-led order (BRICS, etc.)

- Significant presence in population, resource, food production and trade.
- BRICS Summit 2024 was attended by 9 member countries and 27 other countries. Thailand, Malaysia, Indonesia have expressed their intention to join BRICS.
- Lacks identity and specific goals as a community, low possibility of concrete coordinated actions as an organization.
- Emerging as a proving ground for non-US dollar means, a particularly prominent issue under the new global structure.

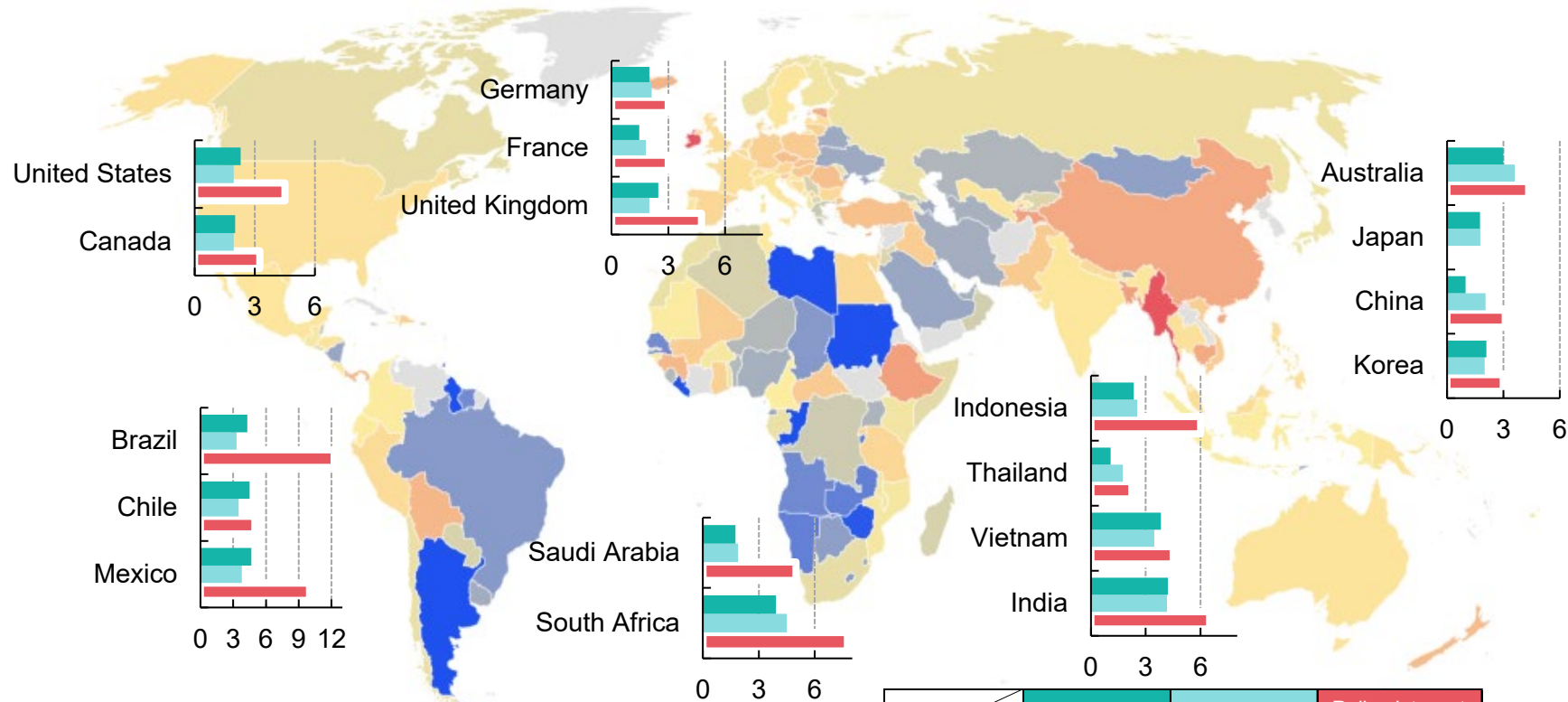


What's beyond the economic slowdown and decelerating inflation?

- The high inflation period end. As growth slows down, central banks shift monetary policy to cutting policy rates.
- Low growth expected in 2025. "New regime" policies may lead to volatility and uncertainty

Inflation rates (%)

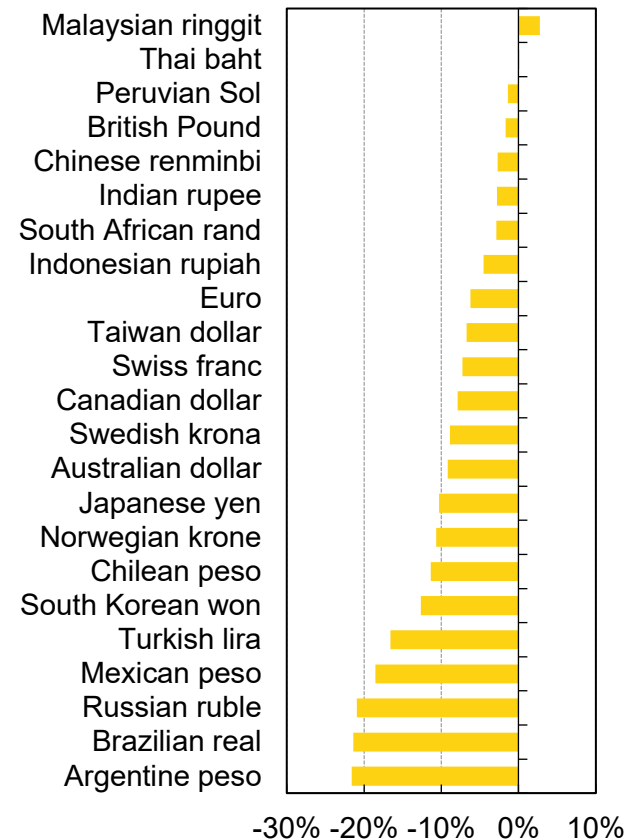
Legend: ■ End of 2024 (estimate) ■ End of 2025 (estimate) ■ Policy rate (as of December 2024)



High and low 2025 growth prospects
With 2015-19 averaging ■ -5 ■ 0 ■ 5

Exchange rates (against the dollar, year-to-date)

Reference Date : 12/31/2024 vs. 12/29/2023



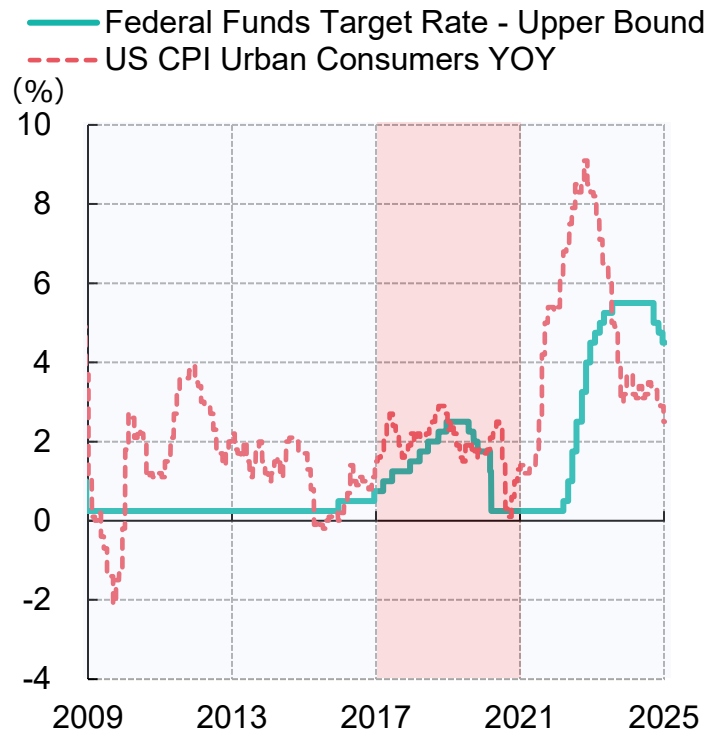
	2024	2025	Policy interest rate
Russia	7.4	4.8	21.0
Argentina	139.7	45.0	32.0
Turkey	43.0	24.0	47.5

(Source: Compiled by SCGR from IMF, Bloomberg) **8**

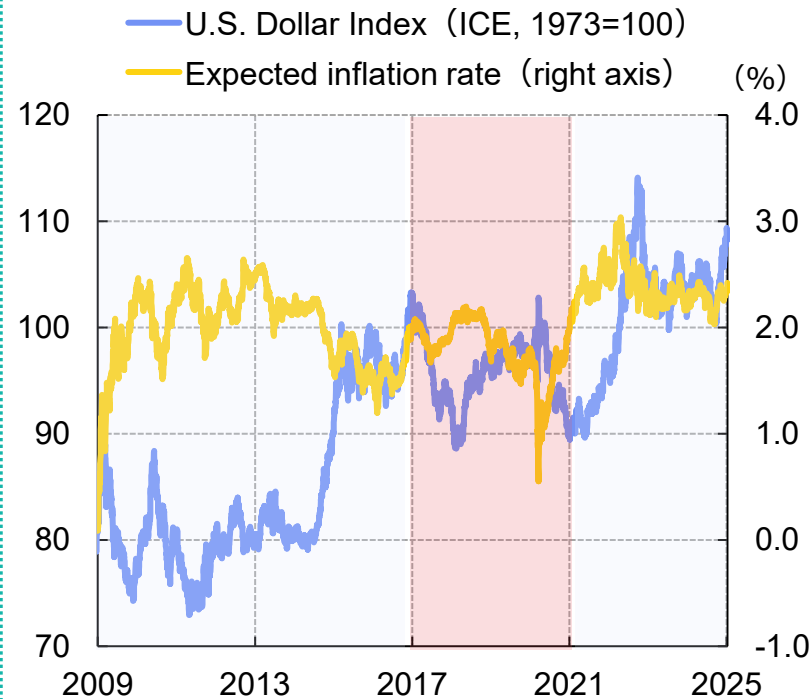
Will Trump 2.0 bring renewed inflation and lower growth?

- **Trump 1.0 saw moderate inflation despite inflationary policies** – due to modest rate hikes in the first half, and an economic downturn in the latter half.
- **Under Biden, fiscal stimulus, supply constraints, and housing shortages** – along with delayed rate hikes (negative real interest rates) accelerated inflation, leading to large and rapid rate hikes and a strong dollar.
- **In the 2nd Trump admin., large tax cuts, illegal immigration control, and tariffs also exert inflationary pressure.** Conversely, higher costs could suppress demand.
- **Current market seems to be against the principle that inflation tends to devalue currencies.** Exchange rates including currency policy under the new regime are closely watched.

US CPI vs. Fed-Fund rate

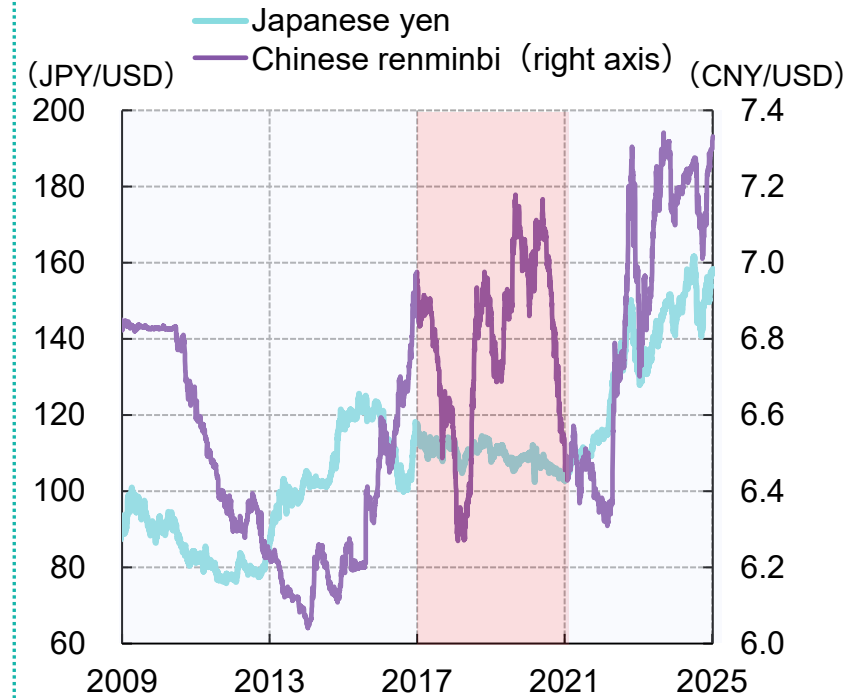


Dollar got stronger despite inflation



Note: expected inflation rate is the breakeven inflation rate calculated from the yield spread between inflation-linked bonds and regular government bonds (both 10 years).

Yuan depreciated during Trump 1.0 trade war



Red shaded area : Trump 1.0 period.

Impact of anti-China America-first trade policies

- Trump emphasized the orientation towards decoupling from China (during the election period). Useful tools involve tariffs, export control, and investment regulations
- If the Trump tariffs are implemented, an additional 17% tariff burden on imports could raise domestic prices by 1.8%
- Additional tariffs on China, Mexico, and Canada could significantly impact Japanese businesses
- Broad-ranging tariffs, China-targeting restrictions, and countermeasures could cause significant disruptions to global trade and supply chains

Trump trade policy plans

Tariffs of 10-20%

Imposing a universal tariff of 10-20% on imports (25% for Canada and Mexico). Retaliation against countries imposing high tariffs on US exports.

60% tariffs on China

Imposing 60% tariffs or more (starting with an additional 10%) against all Chinese products, plus revoking most-favored-nation treatment.



	Proposed Tariff rates	Actual US trade volume in 2023	Including additional tariff amount
Total US Imports	17%	\$ 3 trillion	\$ 3.6 trillion
from China	60%	\$ 0.4 trillion	\$ 0.7 trillion
from other countries	10%	\$ 2.6 trillion	\$ 2.9 trillion

Retraction of most-favored-nation treatment for China

Investment restrictions against China

Review of USMCA (Re-negotiation in 2026)

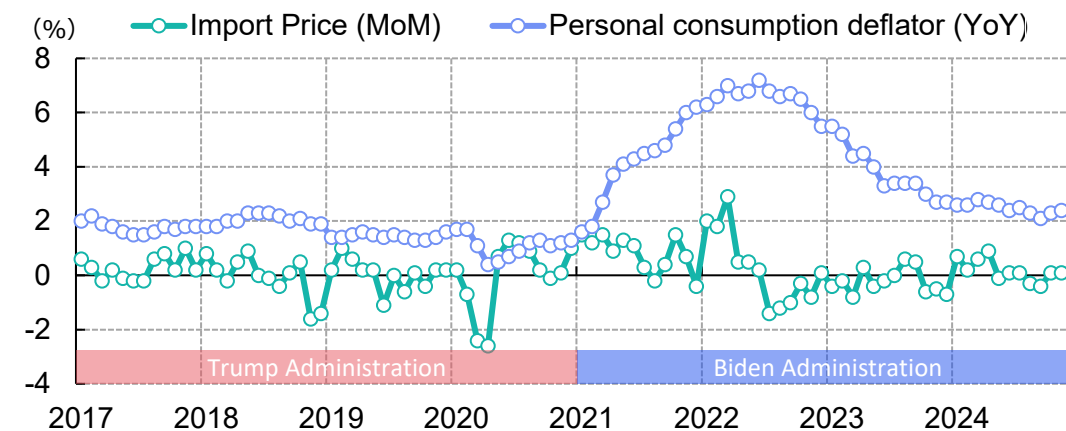
Countermeasures against Chinese exports via third country

Limit Chinese investment in the US asset

Withdrawal from IPEF (Indo-Pacific Economic Framework)

Sumitomo Corporation Global Research Co. Ltd.

The previous tariff increase was adjusted by the decline in import prices



(Source: Compiled by SCGR from Bureau of Economic Analysis, United States Department of Labor)

A uniform 10% tariff, projected to reduce the US real GDP by 0.36% (2026) and raise US prices by 0.6% (2025)

A 60% tariff on China, expected to reduce the US real GDP by 0.14% (2026) and increase US prices by 0.4% (2025)

(Calculation by US Peterson Institute of International Economics, 2024)

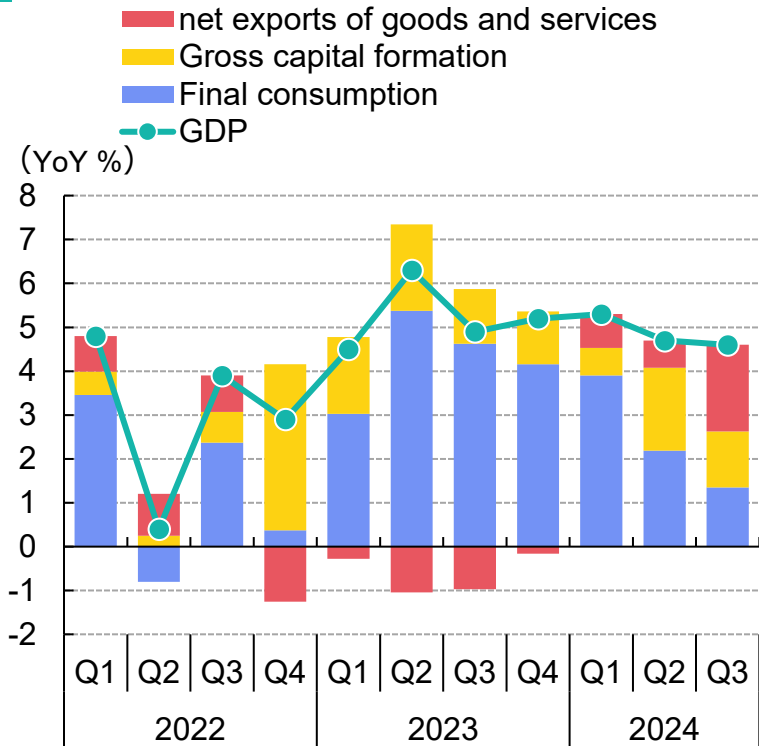
Anticipated response from China

- Stronger countermeasures than during the first Trump administration
- Sanctions on fortune 500 US companies
- Enhance regulations on the export of critical minerals
- Partial liquidation of held US treasuries

The negative impact of a stagnating Chinese economy

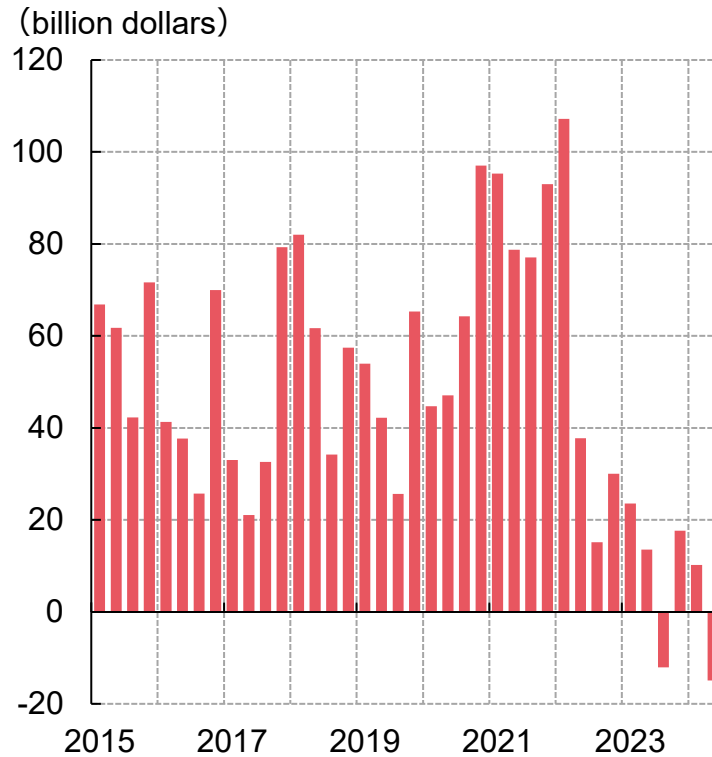
- The stagnation of the Chinese economy affects commodity markets. Expectations of domestic demand growth are weak with a declining population. The effects of economic policies also raise doubts.
- The flow of FDI to China is continually declining. Surplus funds concentrating in the US?
- Massive supply capacity supported by technological superiority and stagnated internal demand causing the export deflation of materials, leading to the industrial collapse of other nations Newly noteworthy issues under the new system

The stagnating Chinese economy (growth rate)



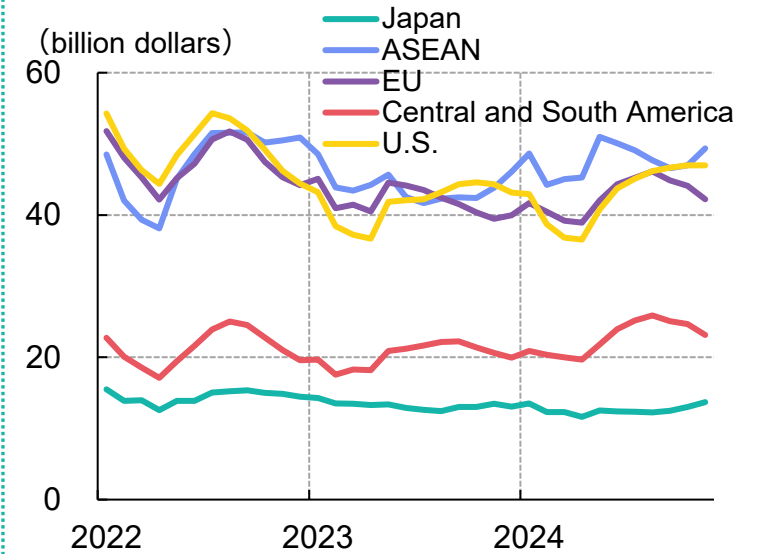
(Source: Compiled by SCGR from National Bureau of Statistics of China)

China: Direct inward investment



(Source: Compiled by SCGR from OECD)

China's exports by destination (key region)



(Source: Compiled by SCGR from Bloomberg)

Currency exchange rate changes (against the US dollar, compared to early 22)

Japan ▲34.0%	Vietnam ▲11.1%
Euro ▲8.5%	Philippines ▲15.7%
Indonesia ▲11.3%	Brazil ▲4.3%
Malaysia ▲6.9%	Mexico +1.1%
Thailand ▲4.3%	

(Source: Compiled by SCGR from Bloomberg)

02

Political Economy and Market Trends in Each Region

U.S. forging ahead with America-first policy

- The second Trump administration values "loyalty" to the President.
- Prominent China hawks, climate change skeptics, and pro-Israel / anti-Iran hardliners compose Trump administration.
- Compared to the Biden administration, less interest in maintaining the current global order and alliance networks.

Foreign Policy and National Security

Secretary of State



M. Rubio

Senator (FL)

- Hardliner against China and Iran
- Supports elimination of Hamas
- "We do want to see that conflict (Ukraine war) end, and it's going to require some very difficult choices"

Secretary of Defense:



P. Hegseth

News Anchor

- Opposes the diversity in the U.S. military
- Opposes combat roles for women
- Advocates the removal of "left-wing" generals

CIA Director



J. Ratcliffe

Fmr Congressman (TX):

- Hardliner against China
- Firmly defended Trump during the impeachment process
- National Intelligence Director during the first administration

Natl Security Advisor to the President



M. Waltz

Congressman (FL)

- Hardliner against China
- Supports ending the Ukraine war
- Advocates reducing involvement in the Middle East and Ukraine to prepare for the conflict vis-à-vis China

Economy

Secretary of Treasury



S. Bessent
Investor

- Supports additional tariffs and tax cuts
- Supports deregulation

Secretary of Commerce



H. Rutnik
Businessman

- Supports additional tariffs
- Supports abolition of income tax

U.S. Trade Representative



J. Greer
Lawyer

- Worked at USTR during the first administration

Energy

EPA Administrator

L. Zeldin

Fmr. Congressman (NY)

- Supports weaker environmental regulations
- Opposes IRA

Secretary of Energy

C. Wright

Businessman
(shale oil/gas company)

- Denies climate crisis

Sec. of Interior

D. Burgum

Gov. of North Dakota
• Also serves as Chairman of the National Energy Council

Other Areas

Sec. of Health and Human Services



R. Kennedy Jr.

Lawyer

- Argues that autism is the result of vaccination
- Opposes ultra-processed foods and fluoride in drinking water

Chairperson, Department of Government Efficiency



E. Musk

Businessman

- Aims to reduce federal spending by 2 trillion dollars
- Talks of abolishing Dep. of Education
- Opposes gov. regulations
- Raises alarm about climate change and AI technology

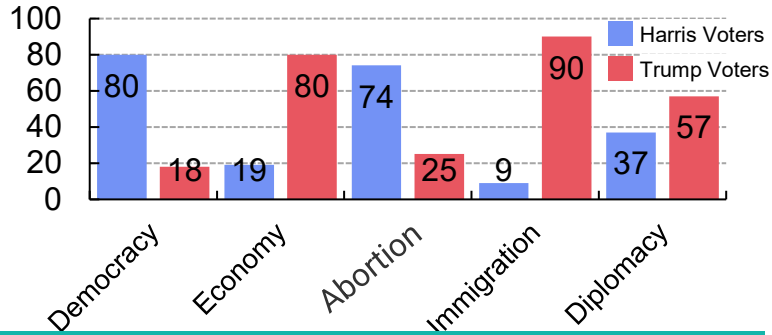
(Photo: Wikimedia Commons)

U.S. economy with high inflation and low consumer sentiment

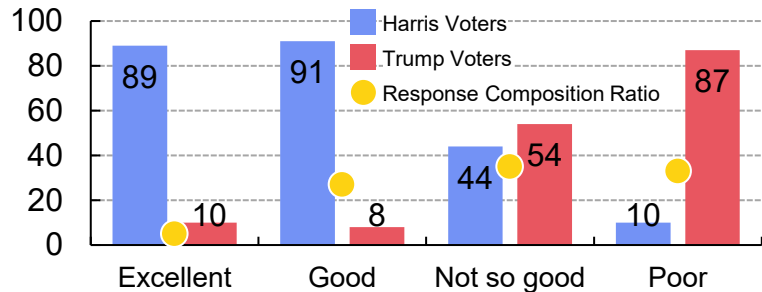
- Public sentiment on economy, the most important issue for many voters, was “Not so good” or “Poor” before the election.
- Consumer sentiment continues to slump due to sticky inflation. Higher tariffs may lead to higher prices and declining purchasing appetite.
- The stock market moves steadily higher; bond market cautiously watching fiscal policy.

CNN Election survey

Most important issue for voters (%)



How you see the condition of the nation's economy? (%)

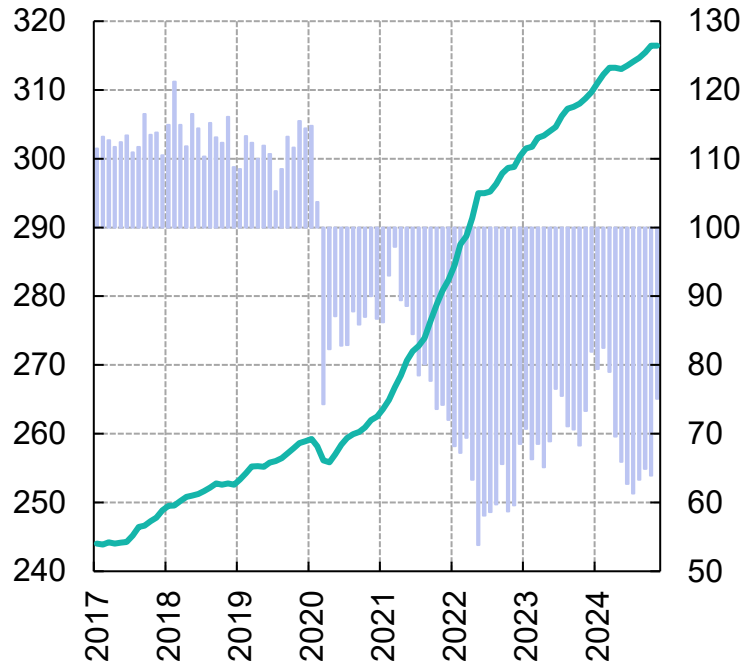


Response	Response Composition Ratio
Excellent	5%
Good	27%
Not so good	35%
Poor	33%

(Source: Compiled by SCGR from CNN)

Consumer sentiment index

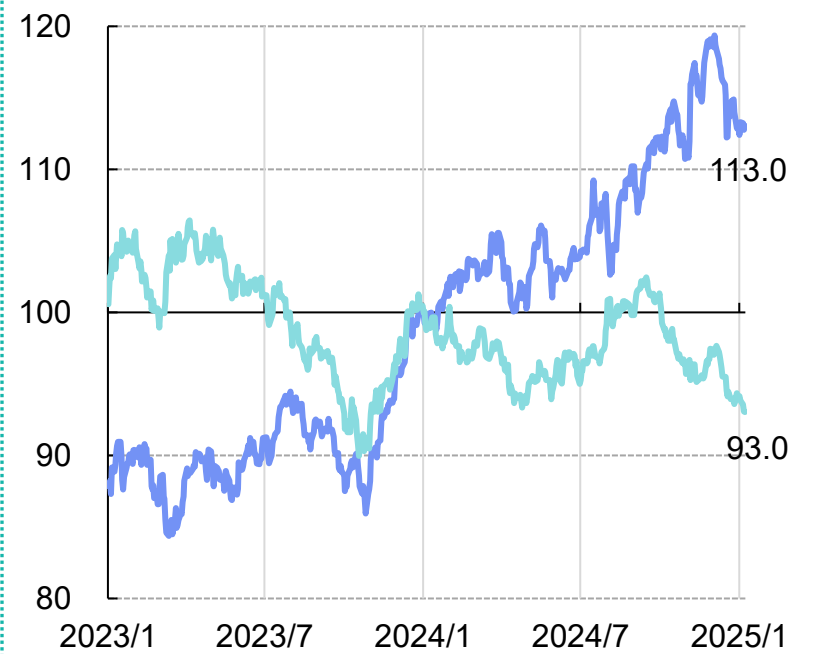
University of Michigan Current Economic Conditions Index (right axis)
US CPI Urban Consumers (Q1 1966=100) (1982-84=100)



(Source: Compiled by SCGR from University of Michigan, Bureau of Labor Statistics)

Strong U.S. stocks, sluggish U.S. bonds

Dow Jones Industrial Average
U.S. Treasury bonds due Feb. 2036 (Start of 2024 = 100)



(Source: Compiled by SCGR from Bloomberg)

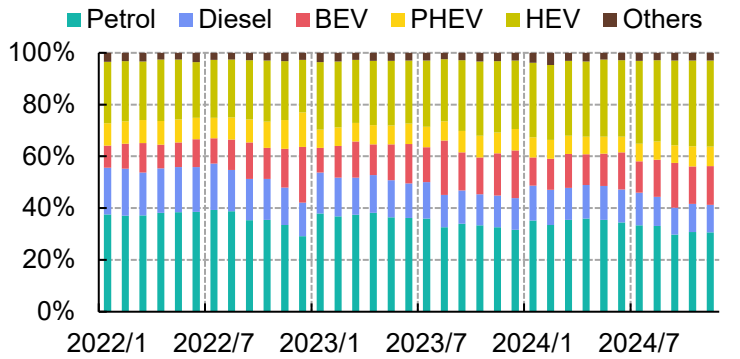
Uncertainties in Europe

- Right leaning of the Von der Leyen Commission 2.0 reflecting the European Election in June '24 → Changes in climate policies
- Underlying limits of unity and solidarity arising from disparities in economic performance, strategies vis-à-vis China/the US and foreign policy implementations amongst EU member states

Right-leaning politics and ESG

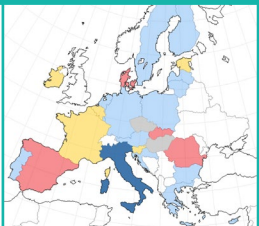
Rising of the right post European votes (June '24)
 → Centre-right, VDL leaning towards the right
 → Impact on climate policies, e.g. Green Deal

Newly-registered vehicles by type: EU



(Source: Compiled by SCGR from ACEA)

VDL 2.0 with strong emphasis on the centre-right



Commissioners relating Green Deal

EPP(Centre right)	6
Renew(Centre)	1
S&D(Centre-left)	3

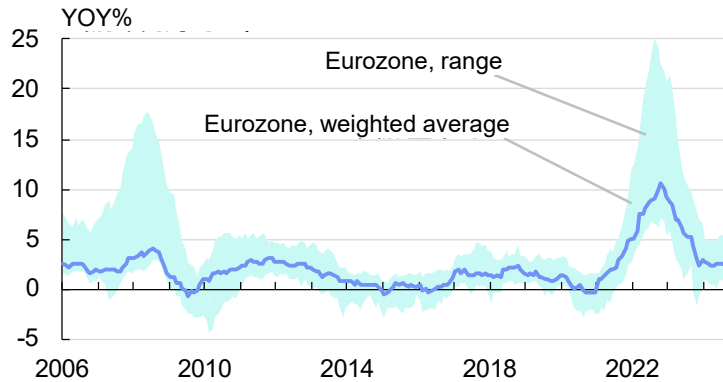
(Source : European Commission, SCGR)

Sumitomo Corporation Global Research Co. Ltd.

Head winds for rate and econ policies

Needs and reality of economic revitalisation
 → Investment funding sources
 → Differences in the China strategies

Different inflation rate, eurozone



(Source : Eurostat, SCGR)

Differences towards China

Eastern Europe
Economic benefit

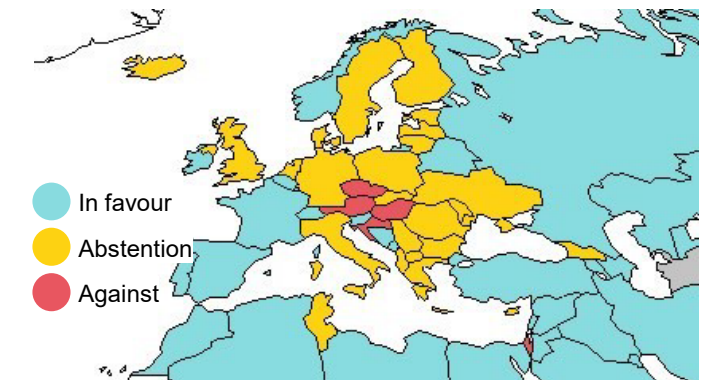
EU, EC
Competitor, partner

Mediocre China policy?

Limits of the EU foreign policy

Different histories and expectations
 → Differences towards M-East, Ukraine
 → Difficulty in unanimous decision-making

UN resolution calling for humanitarian ceasefire, Oct '23



(Source : CraftMap, SCGR)

From Unanimity to qualified majority?

Ukraine Sanctions against Russia, Aid for Ukraine?
 M-East Israel?

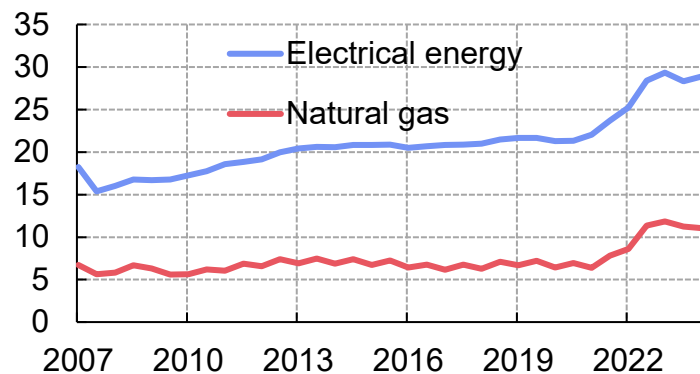
Unrealistic EU Treaty Revision?

Gloomy European economy

- High energy costs, due in part to climate change measures, weighing on industries and households.
- German car industry in crisis, with VW factory highlighting the struggles faced by German industry.
- Production, exports, and consumption may further decrease, unemployment rates continue to rise, increasing social unrest and anxiety.

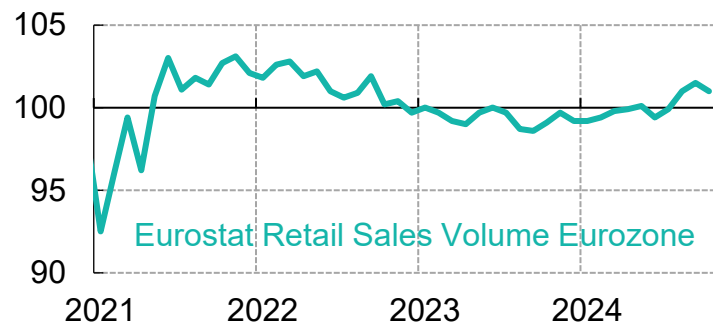
EU: Household electricity and gas prices

(Euro/100kWh, All taxes and levies included)



(Source: Compiled by SCGR from Eurostat)

(Start of 2021 = 100)

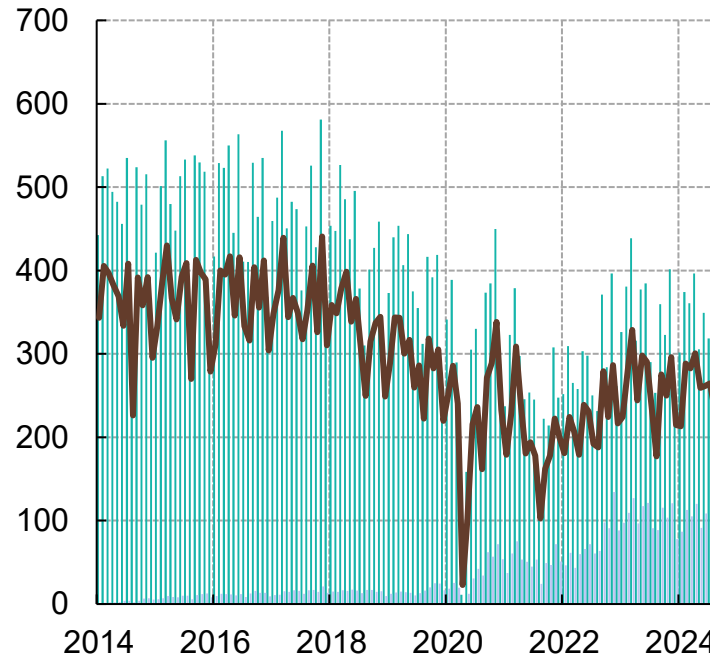


(Source: Compiled by SCGR from Bloomberg)

German automobile production

Legend: Domestic Production (teal bar), of which Electric (light blue bar), Export from domestic production (brown bar)

(thousand units)

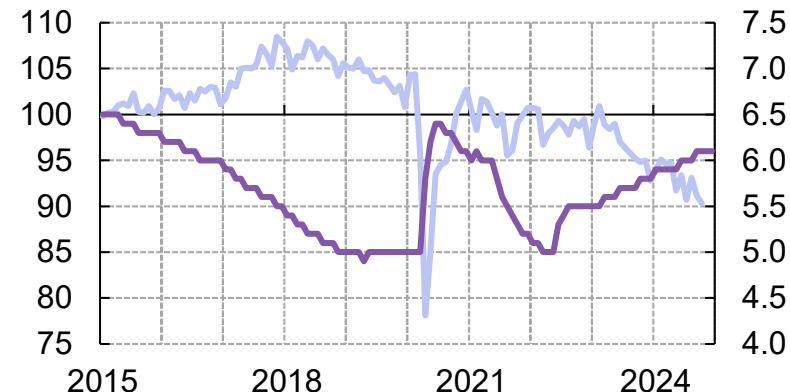


(Source: Compiled by SCGR from VDA/KBA)

Germany: Concerns of industrial hollowing out

Legend: Germany Industrial Production Incl Construction (light blue line), Germany Unemployment Rate (right axis) (purple line)

(Start of 2015 = 100) (%)



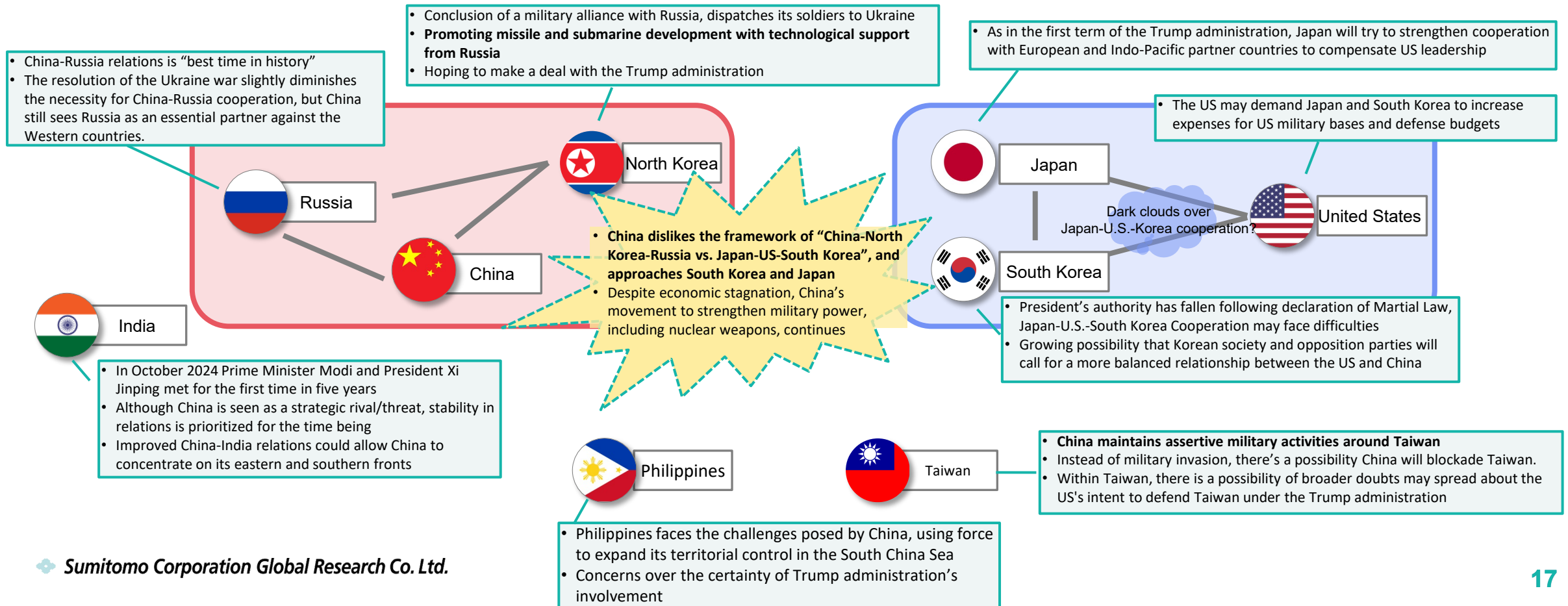
(Source: Compiled by SCGR from Bloomberg)

Successive staff reductions

- German Railways (▲30,000, about 9%) DB Cargo (▲2,300, about 7%)
- Chemicals industry (BASF, Evonik ▲2,000, Bayer ▲5,500, etc.)
- Automobiles and parts VW (reducing capacities), Audi (▲4,500, 15%), GF (▲14,000, 25%), Bosch (▲5,500), etc.
- Steel ThyssenKrupp Steel (▲11,000, about 40%), etc.

Increasing tensions in East Asia

- Concerns over North Korea's missile technology improvement through military cooperation with Russia. Incoming Trump administration may forgo denuclearization of North Korea.
- If Trump administration distances itself from its allies, cooperation between China, North Korea, and Russia may increase, and it could pose a threat to Japan. Meanwhile, Sino-Russian relations may change.
- If the US becomes passive in Taiwan's defense, China will step up its influence operations in Taiwan.
- Concerns over impact to economy and market trends due to deterioration of security environment and politics in various regions.



Asian and Oceanian region will face significant challenges

- The Trump administration's tariff policy, hardline approach toward China, and decline in regional engagement are major concerns, making Japan and Australia's roles even more important.
- ASEAN economy growing steadily, driven by investment shifts from China and the expansion of Chinese companies. Supply chains for semiconductors, EVs, etc. are undergoing changes.
- Amid the decline in U.S. engagement, India and Indonesia are emerging as increasingly influential players. The Indian economy is stable. Australian economy's recovery is still slow.



India

- The third administration under Modi is struggling with coalition management but continues to proceed with reforms and active diplomacy.
- The economy remains stable (7% in 2024), with expectations of further investment growth driven by the US strategy toward China.

Relations with the United States

- Vietnam, Malaysia, Indonesia, Thailand, and India are major trade deficit countries, making them potential targets for sanctions under the Trump administration.
- Exports by Chinese companies in ASEAN to the U.S. could also be targeted.
- Decline in engagement with Southeast Asia (withdrawal from IPEF, etc.)
- Cooperation with India and Quad will continue, but AUKUS will be uncertain.

Relations with China

- Expansion of investment from China (including EVs, IT, and natural resources)
- Concerns about the excessive export of Chinese products due to exclusion from US and European markets.
- China-Philippines conflicts intensifying, managed by strengthened cooperation among Japan, the US, Australia, and the Philippines, while the Trump administration's stance is unclear.

Relations with Japan

- The Trump administration's declined engagement in Asia and US-China confrontation heighten expectations for Japan's role (decarbonization, security-related capability building).

U.S. Trade Deficit (USD billions, 2023, by trade partners)

1	China	279
2	Mexico	152
3	Vietnam	105
4	Germany	83
5	Japan	72
6	Ireland	66
7	Canada	64
8	S. Korea	51
9	Taiwan	48
10	Italy	44
11	India	43
12	Thailand	41
13	Malaysia	27
14	Switzerland	25
15	Indonesia	17

(Source: US Department of Commerce)

ASEAN

- Emerging Asian economies are experiencing low inflation (2.1% in 2024) and solid growth (5.3% in the same year). The ongoing cycle of interest rate cuts is expected to boost domestic demand, while which the Trump administration's dollar policy could lead to currency volatility.
- Investments shift from China in sectors such as semiconductors, electronics, and data centers are expanding, but the Trump administration's trade policy may impact these prospects.
- The active diplomacy of Indonesia's new Prabowo administration plays an important role in shaping relations between Southeast Asia and major powers such as the US, China, and Russia.
- Myanmar plans its first general election in 2025 since the coup, though military rule continues thereafter.

Australia

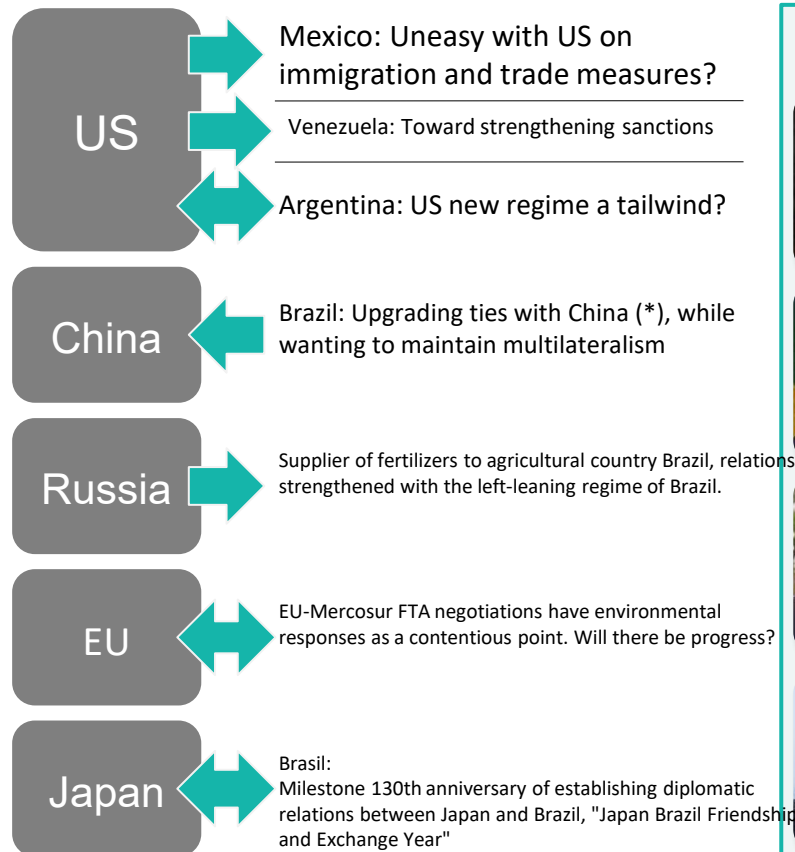
- Inflation is moderating but both domestic and foreign demand remain not strong, leading to slow economic recovery (1.2% in 2024).
- Due to the Trump administration's declined engagement, China strategy, and the importance of technology and natural resources, the cooperation between Japan, Australia, and ASEAN (such as AZEC) becomes even more crucial.



Latin America is expected to experience low growth

- There are abundant resources that are useful for economic growth and climate change, but they have not been the starting point for growth.
- Future low growth could also become a pressure for a change of government.

Foreign Relations:



* "China-Brazil Destiny Community for a Fairer World and a More Sustainable Earth" (November 2024)

Domestic Politics and Social Situation:

Status of major Latin American countries:



Mexico:

High approval rating (70%) for President Sheinbaum remains even after the honeymoon period, with negotiations on immigration and trade with the new US administration being key to the administration's stability. (President Sheinbaum)



Brazil:

The current administration's approval rating is 36%, with a 32% disapproval rating reflecting a divided opinion. Attention on the leadership as the host country of COP30, scheduled to be held in November 2025. (President Lula)



Argentina:

Promoting expenditure reduction through consolidation of ministries and reduction of civil servants. Although there is some forcefulness, achievements are accompanying such as controlling inflation and stabilizing exchange rates. Still enjoying over 50% approval rating. (President Milei)

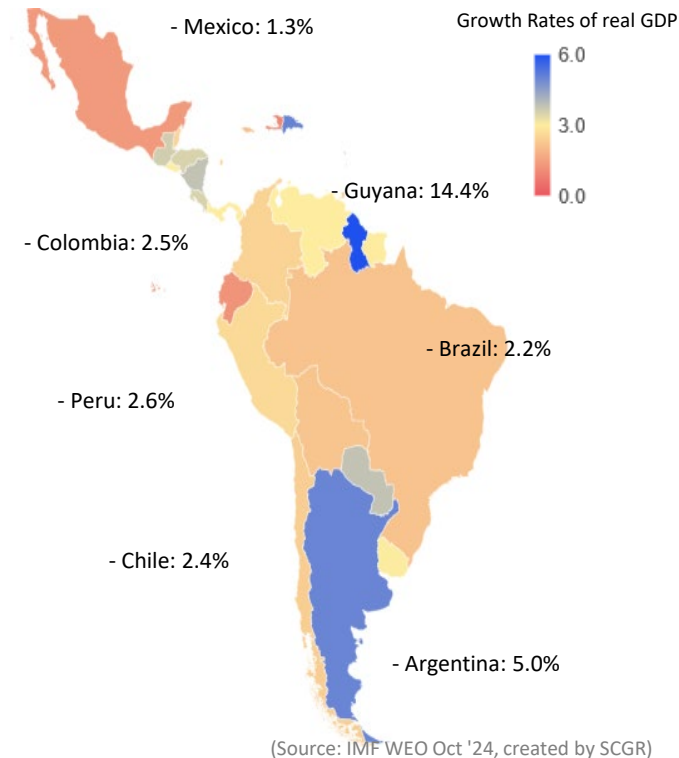


Chile:

In the unified local elections in October '24, the opposition (center-right coalition) recovered support, and there are views that the presidential election in November '25 could unfold favorably for the right. (President Boric)

(Photo: Wikimedia Commons)

Economic growth forecasts for Latin America in 2025:



High growth is expected in Guyana, which is flourishing in oil production, and Argentina, where inflation appears to be under control. However, growth in other countries is expected to maintain low and stable growth with lacking the impetus for growth.

Sub-Saharan Africa aiming to increase presence

- Military regimes in the Sahel countries (southern edge of the Sahara Desert) considering coups as the "new normal." Potential for escalating security concerns and tensions in the "Horn of Africa" region.
- Dependently high inflation, protest demonstrations (against tax increases), political instability due to confusion surrounding elections are causes for concern.
- Overall trend of a slight decrease in debt, but the increasing interest payment burden and scarcity of foreign currency cause lower creditworthiness, some countries continuing to experience depreciation of their national currencies.

China and Russia

Sahel countries continue counter-terrorism efforts with support from Russia and Turkey.
 New membership in BRICS?
 Loans from China are sluggish, attention on the future of debt problems

US

Minor impact of the Trump administration
 Focus on AGOA (African Growth and Opportunity Act, scheduled to expire in 2025)

EU

Discussing countermeasures to destabilize illegal immigration from West Africa toward the EU

Japan

Japan holding TICAD9 at Yokohama in August, aiming to emphasize and bolster influence through promoting support and investment essential for frontier market growth.

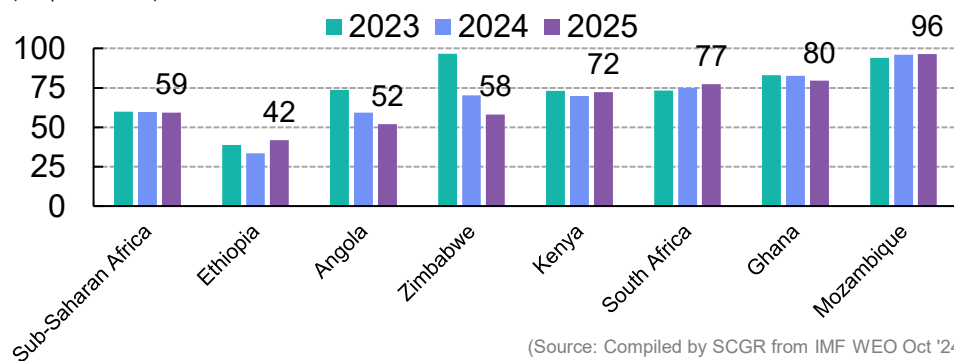
Intraregional politics and society:

- South Africa, as the G20 presidency country, noticing exhilarating Africa's presence.
- Expanded tension between Ethiopia and Somalia-Egypt, active terrorism in Somalia influencing neighboring countries economically.
- Continued social unrest like protesting election outcomes, likely attempt of coups at any time.

Economy

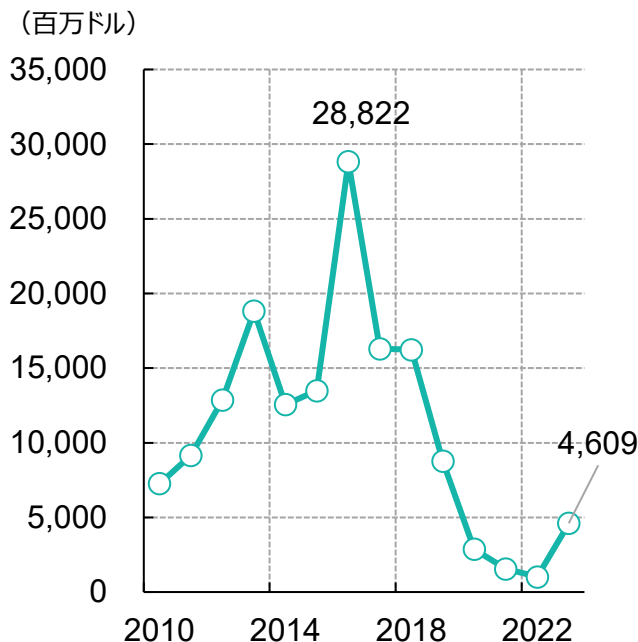
- Growth rate for 2025 heading towards 4%, the average of emerging countries.
- Even factor in growth expectations springing from resource development, improvement trends are lagging.
- Debt relief and fiscal consolidation are essential in many countries

For African countries, carrying government debt burden remains significant. (compared to GDP)



(Source: Compiled by SCGR from IMF WEO Oct '24)

Persistently low lending amount by China toward Africa.



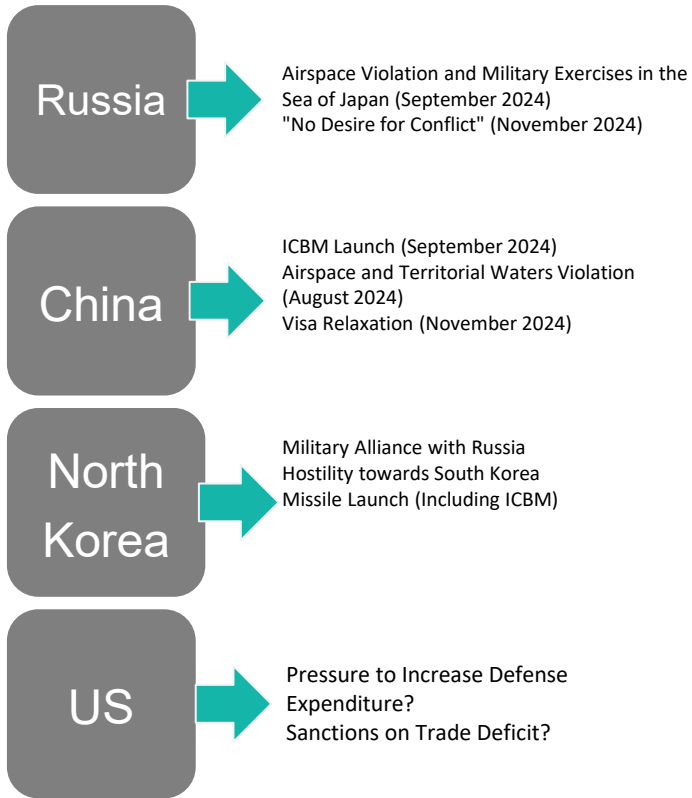
(Source: Compiled by SCGR from Boston University Global Development Policy Center)

The amount of finance from China remains at a low level. Overseas direct investment is also sluggish. The deterioration of cash flow has a negative impact on the real economy.

Both domestic and international environment unstable for Japan

- Markedly increasing uncertainties in the surrounding environment present considerable challenges. Expectation strengthens with enhanced alliance with the US, stress on defense cost uptick and trade deficit reduction by the possible Trump administration.
- Politically unstable as the ruling party is of a minority kind. With the upper house election (July) approaching, continuous tendencies making fiscal policies relatively easier to expand.
- Nominal GDP continues to reach a record high, but real GDP remains flat. The sluggishness in real wages delays the recovery of consumer sentiment.

Increasing Instability in Surrounding Situations



Comprehensive economic measures:



"The Three Pillars"

- 1) Growth of Japanese Economy and Regional Economy
Improvement of Wage Increase Environment, Enhancement of Productivity, Regional Revitalization 2.0
- 2) Overcoming High Prices
Price Surge Support, Strengthening Resistance to High Energy Costs
- 3) Ensuring Safety and Security of People
Disaster Recovery and Reconstruction, National Resilience, Security Measures

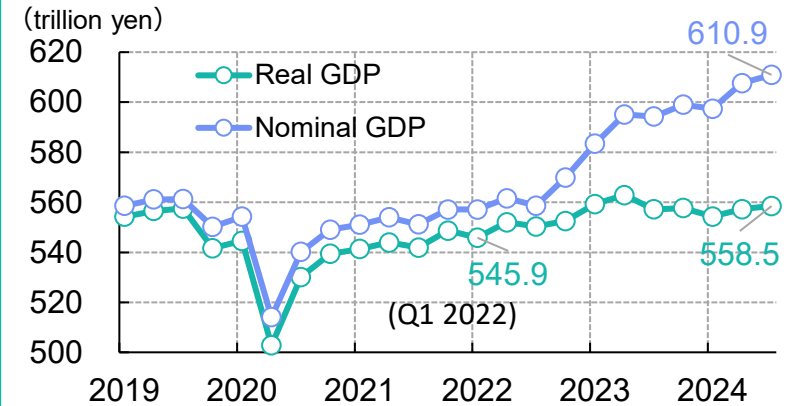
Government budget

FY2025 Budget Request: 117.6 trillion yen (Record high)
Total Expenditure for Economic Measures: 21.9 trillion yen
(Equivalent to 3.6% of Nominal GDP)
(Of which additional amount in supplementary budget's general account is 13.9 trillion yen)

Economic Boosting Effects

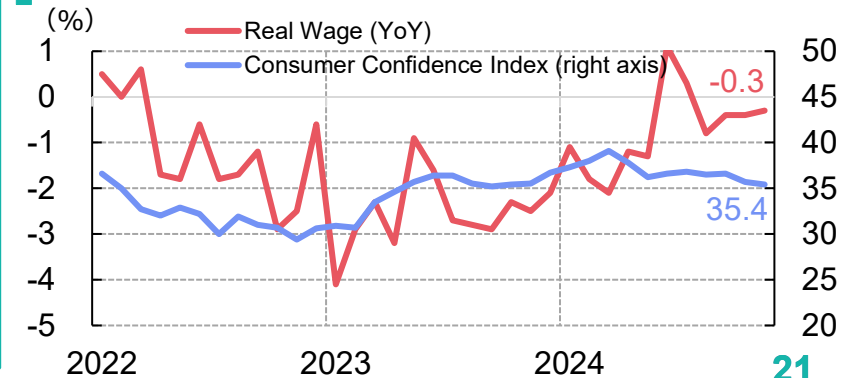
Real GDP Conversion Amount: Approximately 21 trillion yen
Annual Growth Rate Conversion: 1.2% (Annual average for the next three years)
Suppression of Consumer Prices: ▲0.3%

Rising Prices Dampening Growth



(Source: Compiled by SCGR from CAO)

Weak Real Wages Adversely Affecting Consumer Sentiment



(Source: Compiled by SCGR from Ministry of Health, Labor and Welfare, and Economic and Social Research Institute (ESRI))

Macroeconomic growth is stable, but will global structural change bring volatility?

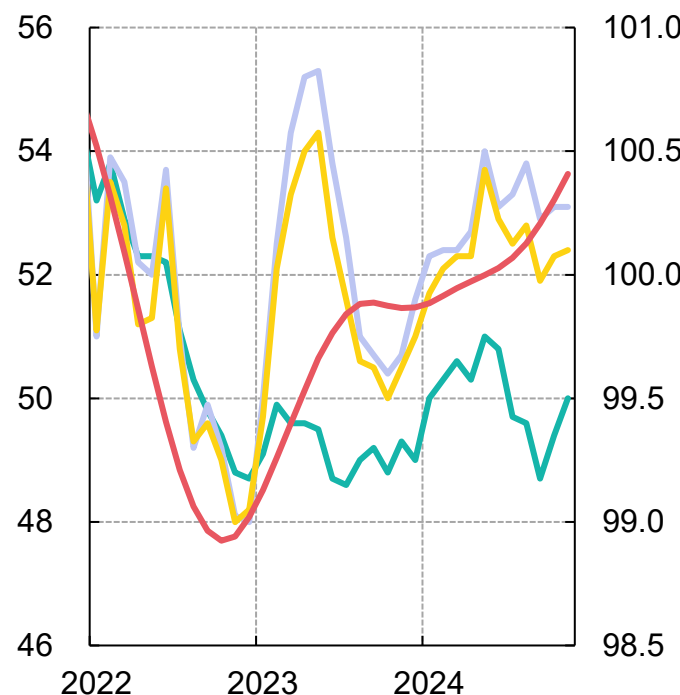
- World Economy in 2025 is expected to witness a stable but low growth of 3.2%. However, may be influenced by policy changes due to regime shifts
- Economic growth is driven by the service industry. Manufacturing sector demonstrates weaknesses due to inflation, high interest rates, decline in demand
- Debt is on the rise across both developed and developing nations. Increased cost of financing, declining fiscal effects due to inflation are hindrance to growth

IMF World Economic Outlook (October 2024)

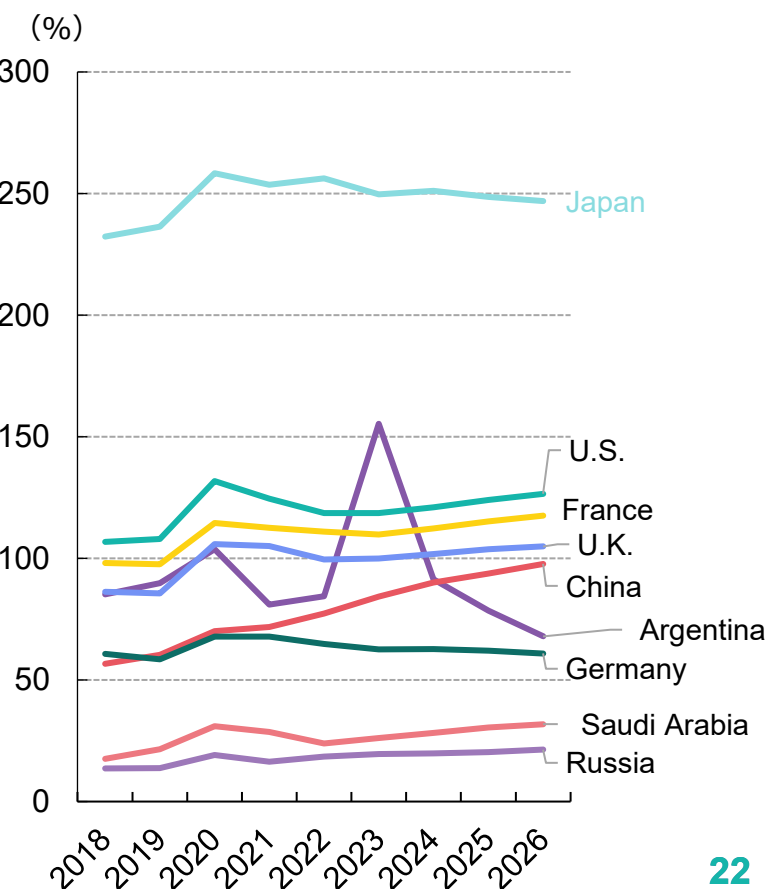
		(YoY %)				
※ () 2015-19 average		2023	2024	2025	2026	
World		(3.4)	3.3	3.2	3.2	3.3
Advanced economies		(2.2)	1.7	1.8	1.8	1.8
Emerging market		(4.4)	4.4	4.2	4.2	4.2
Europe (EU)		(2.4)	0.6	1.1	1.6	1.7
Euro area		(2.0)	0.4	0.8	1.2	1.5
ASEAN-5		(4.7)	4.0	4.5	4.5	4.5
Asia	Japan		1.7	0.3	1.1	0.8
	China		5.3	4.8	4.5	4.1
	Korea		1.4	2.5	2.2	2.2
	Taiwan		1.3	3.7	2.7	2.6
	Austria		-0.8	-0.6	1.1	1.7
	Thailand		1.9	2.8	3.0	2.6
	Indonesia		5.0	5.0	5.1	5.1
	Malaysia		3.6	4.8	4.4	4.4
	Vietnam		5.0	6.1	6.1	6.0
	India		8.2	7.0	6.5	6.5
Europe	Germany		-0.3	0.0	0.8	1.4
	Russia		3.6	3.6	1.3	1.2
	U.K.		0.3	1.1	1.5	1.5
Americas	U.S.		2.9	2.8	2.2	2.0
	Mexico		3.2	1.5	1.3	2.0
Middle East	Brazil		2.9	3.0	2.2	2.3
	Saudi Arabia		-0.8	1.5	4.6	4.4
Africa	UAE		3.6	4.0	5.1	5.1
	Nigeria		2.9	2.9	3.2	3.0
	South Africa		0.7	1.1	1.5	1.5

OECD Leading Indicators/PMI

- JPMorgan Global Manufacturing PMI
- JPMorgan Global Services PMI
- JPMorgan Global Composite PMI
- OECD G20 Leading Indicators (right axis)



Government Total Debt Outstanding (Ratio to GDP)

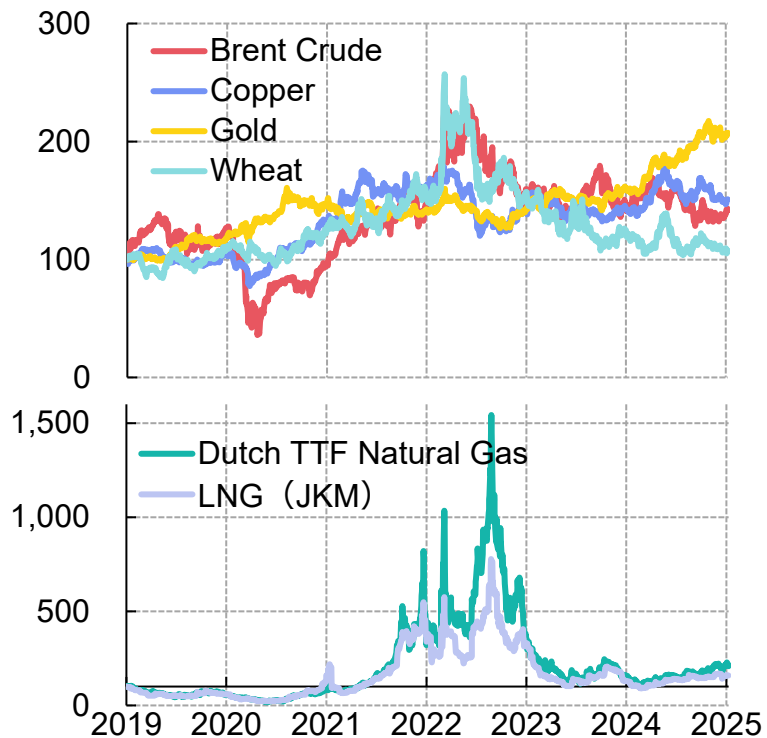


Relatively stable commodity prices

- Commodity Market are stabilizing following hectic years due to trade war, pandemics, wars, and energy crises
- China takes the lead in clean energy investments, whereas emerging countries lag behind in energy transition due to under-investment
- China's structural changes lead to weaker domestic demand, resulting in massive increase in export

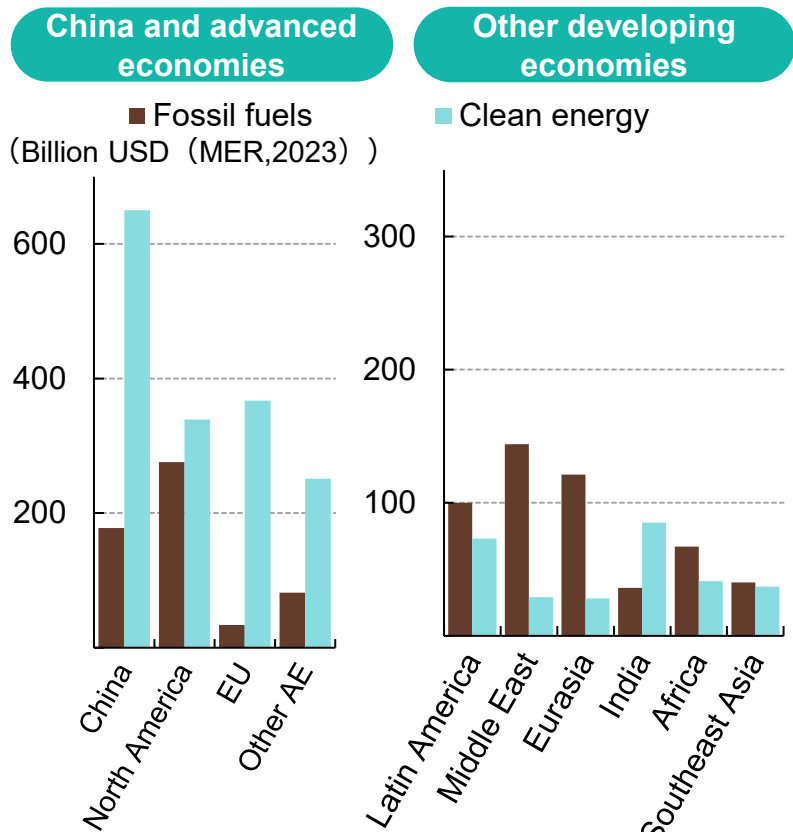
International commodity Markets

(Start of 2019 = 100)



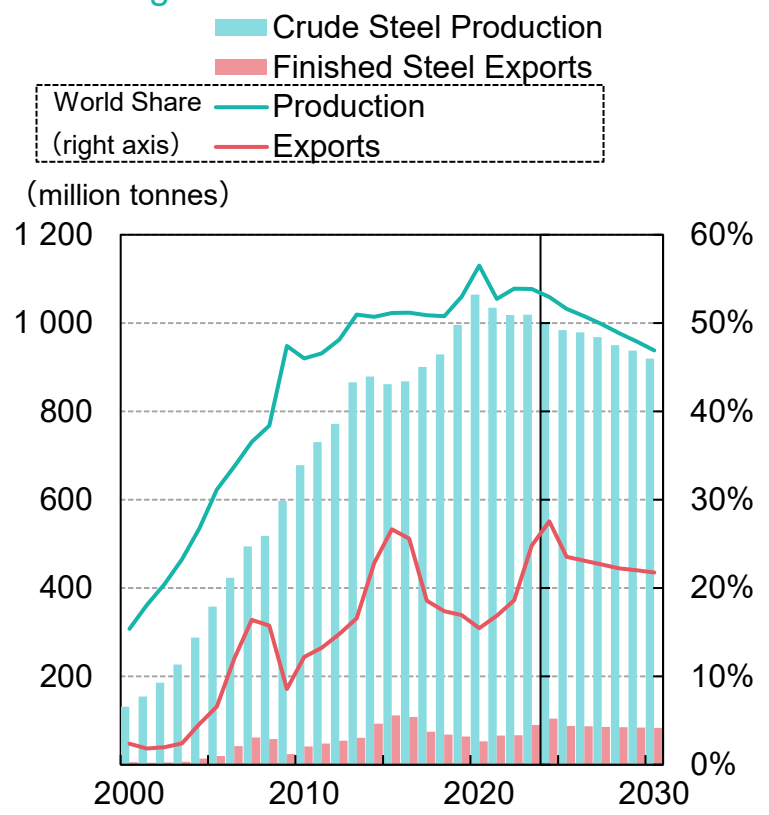
(Source: Compiled by SCGR from Bloomberg)

Energy Investments (2023)



(Source: Compiled by SCGR from IEA)

China's Overproduction and Massive Exports Leading to Trade Friction

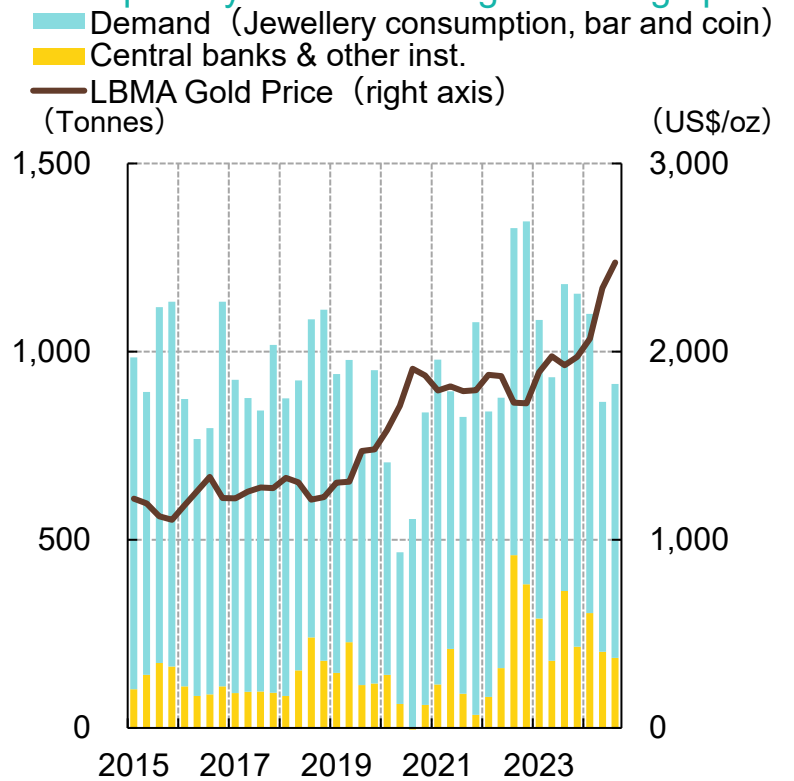


(Source: Compiled by SCGR from Woodmac)

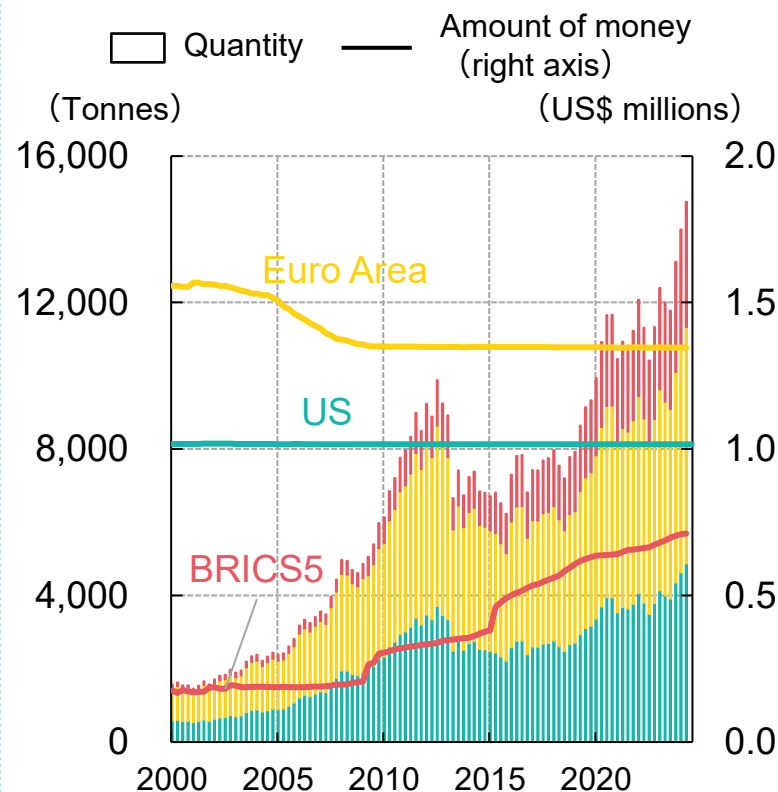
Gold prices continue to set new highs, Trump fuels crypto markets

- Safe-haven gold demand and official gold buying interest remain strong, but less volume due to high price
- New type investors: China's Generation Z collecting "gold beans", American citizens buy gold mini bars at Costco etc.
- Long-term gold holdings have substantial latent gains. Some have the idea to cash in a small portion to allocate funds to other priorities
- President-elect Trump's pro-crypto stance boosted Bitcoin prices ; he might consider establishing 'Federal Bitcoin Strategic Reserve' ?

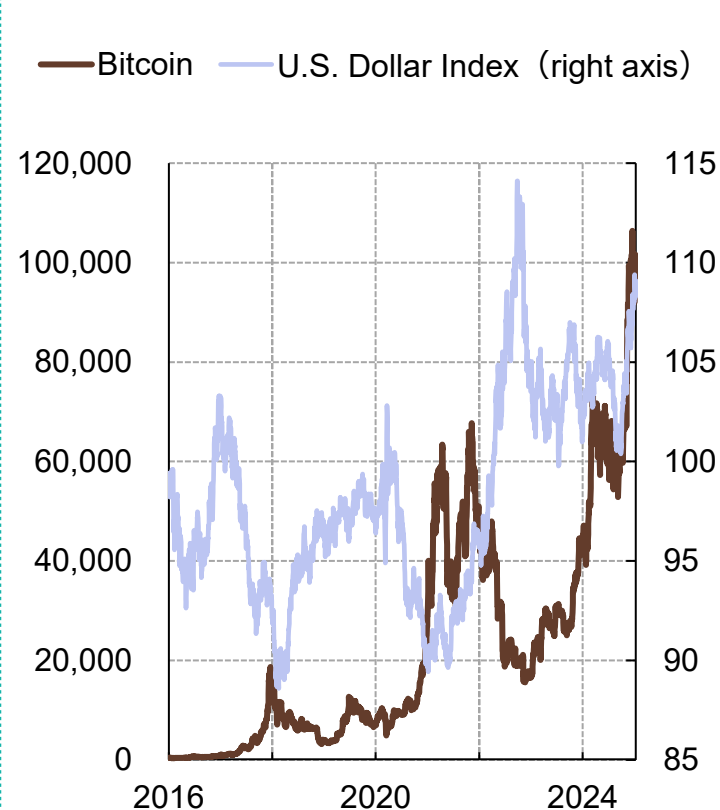
While gold demand remains steady, the quantity isn't increasing due to high prices



Official gold reserves: Latent gains increase



Bitcoin storms above \$100,000 after Trump win



03

ESG and AI Related Developments

Change in the pace of climate change measures

- The Right expand in elections in Europe and the United States. Slowing growth and questioned economics of decarbonization affected the speed of action.
- Emerging and developing countries use decarbonization as a catalyst for industrial upgrades.

U.S.: Trump administration (expected policy direction)

Climate change is a "hoax" and "nonexistent"

- Possible withdrawal from the Paris Agreement, etc.
- Abolition of climate change-related disclosure regulations, and Uncertainty in pension management
- Review or revocation of Biden's administration regulations
- Expansion of fossil fuel production, restarting of LNG export permits, Repeal of EV promotion measures, reinforcement of domestic energy production (Republican manifesto)
- Export expansion
- IRA review (support reductions for EV, hydrogen, buildings, etc.).

Secretary of the Interior/
Chairman of the National
Energy Council



Doug Burgum

Energy Secretary



Chris Wright

EPA Administrator



Lee Zeldin

Sumitomo Corporation Global Research Co. Ltd.

Global: Progress amid waning interest

- Global warming in 2024, exceeding 1.5 degrees for the first time
- COP29: Focus on finances, developed vs. developing countries confrontation
- NDCs deadline in Feb.2025, UK targets 81% reduction
- Coal-fired power: UK abolishes in 2024, Indonesia within 15 years

Europe and the U.S.: Social backlash and changes in strategic direction

- Environmental advocates retreat in elections
- Facing demand shortage and weak competitiveness, EV: fading subsidies support (Germany), rising competition
Renewables and hydrogen: struggling due to costs in a world with interest rates
- Demand for decarbonized energy, Nuclear power: moves to use in data centers
- Strengthening industrial and trade policies, domestic industrial rehabilitation
Gas-fired power: Support for new installations, but based on future decarbonization
CCS: Policy support (EU Industrial Carbon Management Strategy)
EV: Increase in tariffs
- Reviewing corporate strategy
Oil/Gas/CCS: Reassessment and increased investment
Renewables/Hydrogen: Investment reduction and postponement
EV: Plan review and staff cuts
- EU rules revision

Japan: GX2.0, societal transformation

- GX2040 Vision:
GX industrial structure, GX industrial location, GX market creation

China: Advances in decarbonization efforts

- Massive introduction of renewable energy, increased production and export of new energy vehicles
- Institutional design toward expanding emissions trading

Other emerging and developing countries: Seeking growth opportunities through decarbonization

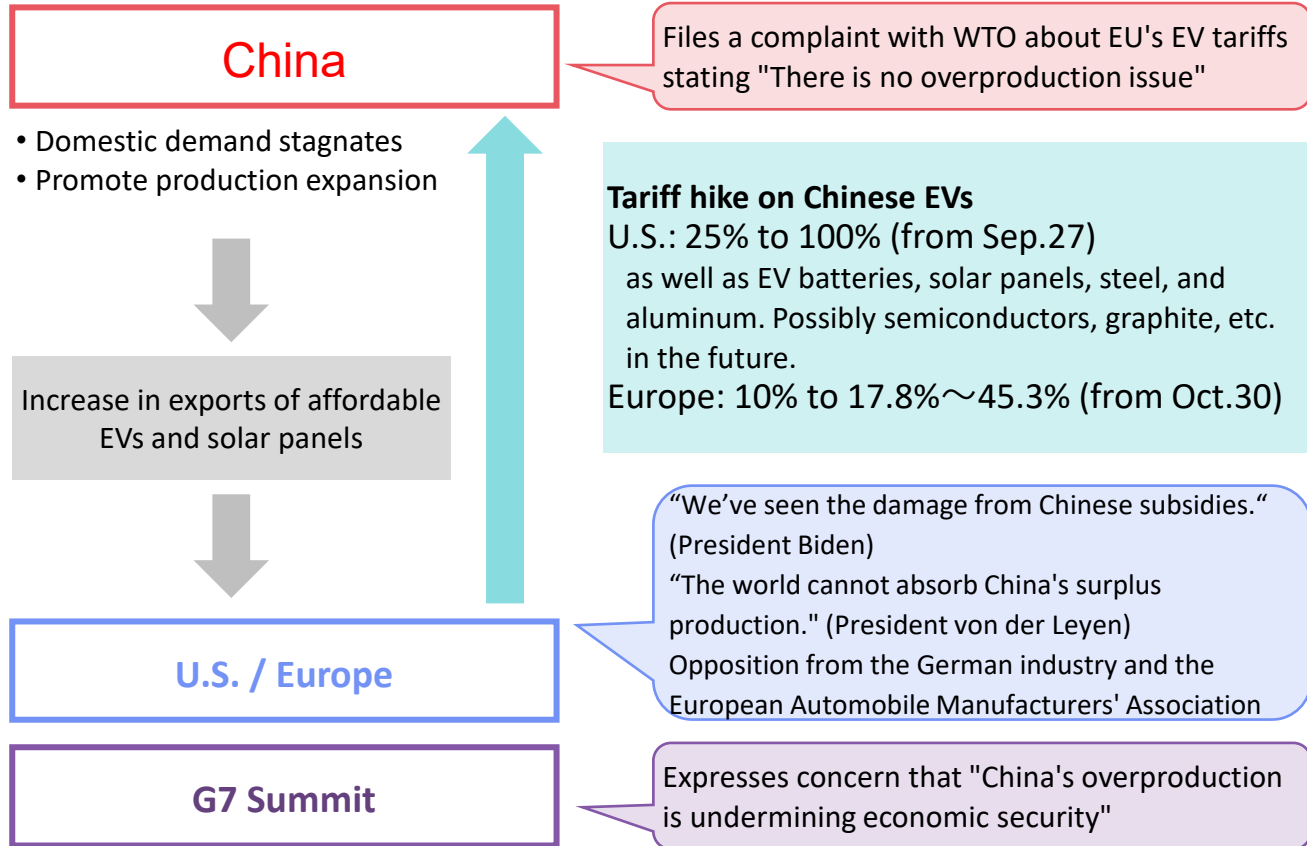
- Moves for industrial upgrades through decarbonization
Overseas investment by Chinese EV manufacturers (Thailand, Indonesia)
Rise of domestic EV manufacturers (India, Vietnam)
- Investment attraction through decarbonization-related resources
Resource-rich countries: Attracting investment in gas, critical minerals, and CCS
Saudi Arabia: Greenshoring
- Decarbonization depends on external financial support?

Trade friction

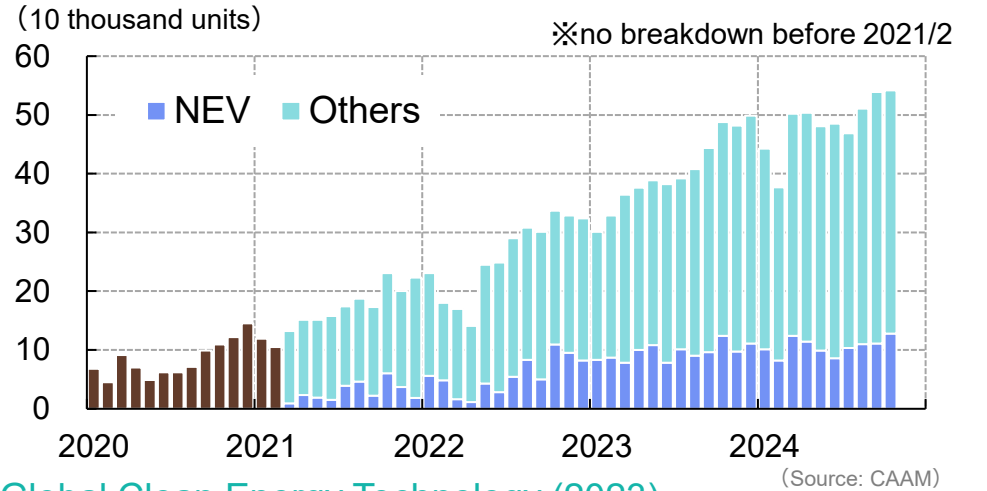
Blue: Progress in climate change measures.
Red: Retreat in climate change measures.

The Impact of China's overproduction on Europe and the United States

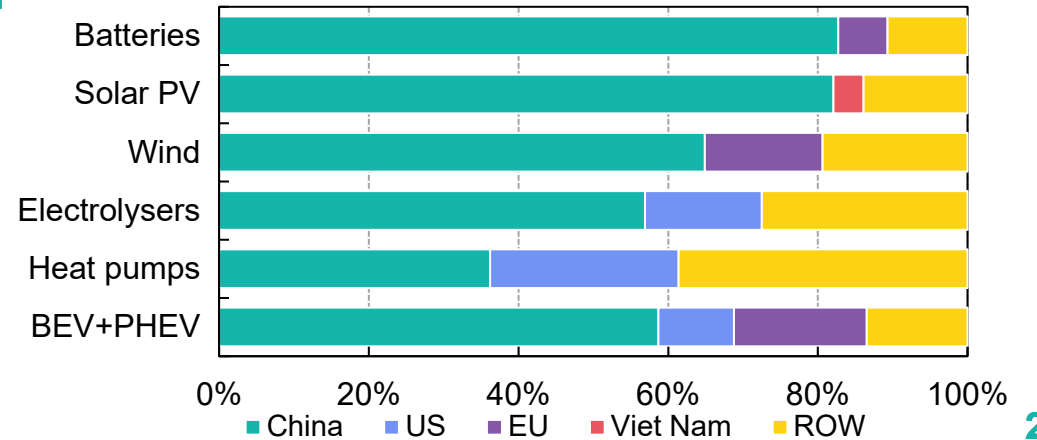
- China's competitive edge and overproduction in the green sector pose an economic security threat and a crisis for Western industries.
- Sharp brake on the trend of green investment promotion and transition for green products in Europe and the U.S.
- Tariff hike on Chinese-made EVs is symbolic.



Expansion of China's automobile exports



Global Clean Energy Technology (2023)

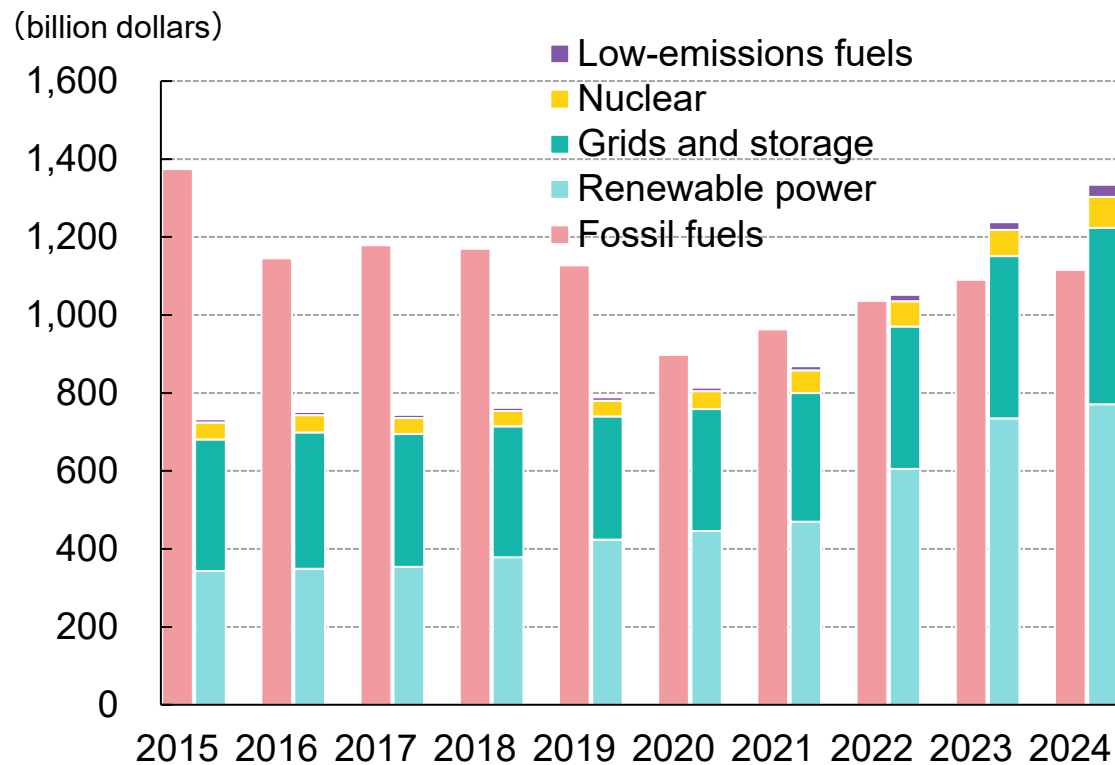


Notes: BEV+PHEV is share of sales (Source: Compiled by SCGR from IEA)

Re-evaluation of fossil fuels

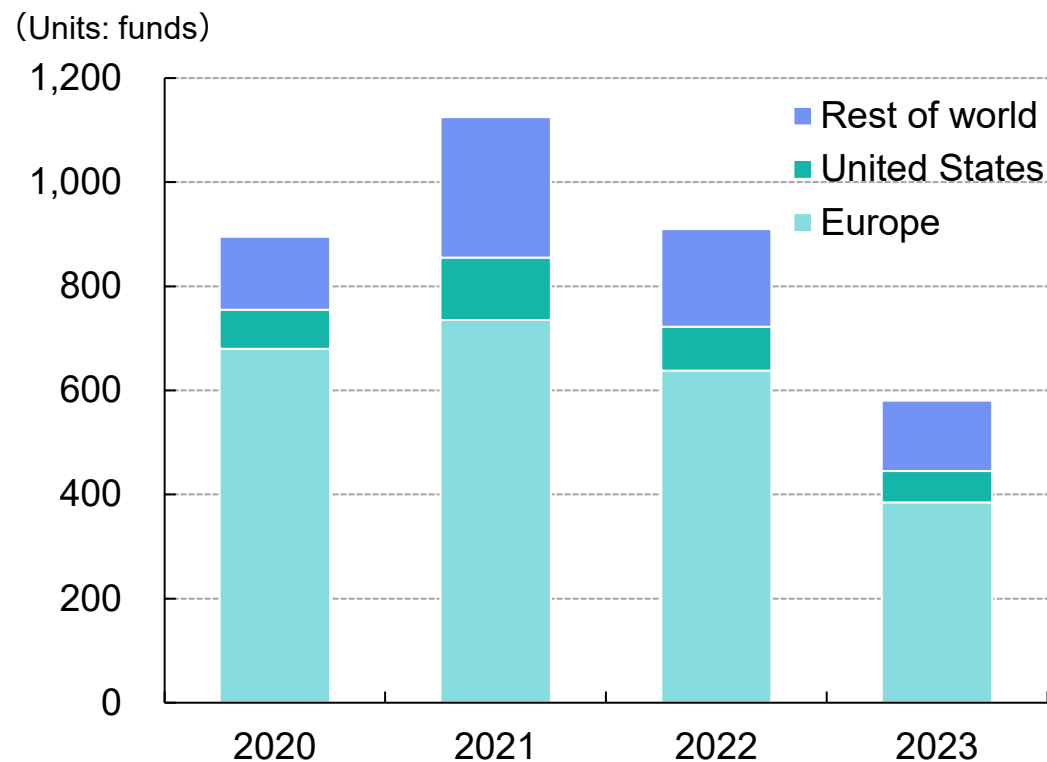
- Investment in fossil fuels is on the recovery trend. Upstream investments in oil and gas sectors are expected to recover to 2017 levels by 2024, led by the Middle East and Asia.
- Concerns over relative investment returns and fund reliability, as well as security-prioritizing mindset, lead to a decline in sentiment for sustainable finance.
- Trump administration is expected to actively develop oil and gas. If supply increases cause lower prices, it will also impact the economics of renewable energy.

Global investment in energy



(Source: Compiled by SCGR from IEA, World Energy Investment 2024)

Sustainable fund launches



(Source: Compiled by SCGR from IEA, World Energy Investment 2024)

Movements and changes in European rules

- EU leads rule-making and creates competitive advantages, but the movement is complicated by environmental changes
- If the speed changes, the cost burden becomes heavier, leading to reconsideration in some cases

System	Overview
Carbon Border Adjustment Mechanism (CBAM)	Measures to require payment at the border for the difference in carbon prices between domestic and foreign products . Transition period from Oct.2023, full implementation from Jan.2026 (Obligation to purchase and submit CBAM Certificates) Moving forward the review and simplification under the second von der Leyen administration?
Disclosure rules (CSRD, European Sustainability Reporting Standards (ESRS))	Scheduled to apply to large companies from FY 2025, also to foreign companies from FY 2028. Review towards simplification under the second Von der Leyen administration
Net-Zero Industry Act (NZIA)	For eight strategic net-zero technologies such as solar power, wind power, energy storage, fuel cells, to ensure at least 40% domestic production of domestic demand by 2030 (Effective from June 2024)
Critical Raw Materials Act (CRMA)	Aiming for 10% domestic mining, 40% domestic processing, and 15% domestic recycling of strategic raw materials (lithium, cobalt, graphite, rare earth, etc.) by 2030 (Effective from June 2024)
Ecodesign for Sustainable Products Regulation (ESPR)	Regulation to promote the sustainable design of products considering the entire lifecycle of the product. Almost all products (excluding food, feed, pharmaceuticals, automobiles, etc.) (Effective July 2024) * Sustainability requirements: carbon footprint, product durability, reusability, etc.
Right to repair	To ensure consumers can use home appliances for a long time, manufacturers are obliged to provide repairs at a reasonable price to prevent disposability (effective July 2024).

Advancement and stagnation of nature positive and circular economy

- Progress in the field of biodiversity is noted in some areas, however, there is a gap between advanced and developing countries regarding mobilizing funds, which might impact the pace.
- EU aims for growth led by policy, with specific investments in battery recycling. On the other hand, the expansion of the right-wing and the decline of ESG investments lead to speed adjustments.

< Nature Positive >

- [Globally] The Biodiversity COP16 (Oct.2024, Colombia) did not reach agreements on creating measurement indicators and mobilizing funds.
- [Europe] One-year extension for the application of the European Deforestation Regulation (due to lack of preparation, cautious views from related industries)
- [Disclosure] TNFD disclosure begins in FY 2024. Among the 320 Early Adopters, 81 are Japanese companies including Sumitomo Corporation. ISSB aims to create draft standards within 2025.

< Circular Economy >

- [Globally] International Plastics Treaty (Nov. 2024, South Korea) did not reach agreement on the introduction of production regulations and traceability reporting regulations.
- [Europe] EU Batteries Regulation (detailed on the right) and others (refer to the previous page)
- [Domestic] Basic Plan (Aug. 2024) sets indicators for the overall picture of circular society (e.g., share of renewable resources and recycled materials to 34% in fiscal 2030).

< EU Batteries Regulation >

- Regulates from the perspective of GHG emissions and recycling rates. Information related to regulations can be accessed via the "Battery Passport(*)".
* A data distribution system via EUs information exchange system to secure traceability and provide information such as battery composition and degradation to consumers, etc..
- From 2028, restrictions on market access based on carbon footprint will be introduced, and the requirement to use recycled materials will be introduced in 2031.

Company Names	Key Movements
Renault	Announced efforts towards recycling in collaboration with Veolia, a major recycler, and Solvay, a chemical manufacturer (Dec. 2023).
BASF	Signed an off-take agreement for black mass (battery material) with Stena Recycling (Sweden) (Jan. 2024).
Mercedes-Benz	Constructed lithium-ion battery recycling processing plant in Germany, and commenced operation (Oct. 2024).
Northvolt (SWE: automotive batteries)	Filed for Chapter 11 bankruptcy in the United States (Nov. 2024). An emerging battery manufacturer in the EU, currently undergoing business restructuring.

Generative AI development trends

- The speed of technological evolution is accelerating. Reaching the stage of practical application and widespread use in various fields. There are even predictions that AGI(*) will emerge within the next few years.
- Development competition among major players is intensifying, with huge investments in AI-related infrastructure ongoing. Strong consciousness towards securing green power.

AI Models / Applications



- Large-scale and high-performance foundational models
⇒ Scoring comparative to human experts in performance tests
- Multimodal capabilities (processing multiple types of data simultaneously)
⇒ Closer to human-like intellectual existence
- Advanced speech capabilities, ultra-high quality of images and videos
⇒ Enables voice conversations equal to humans
⇒ Usable level for media production
- Emergence of enhanced inference ability models (e.g., OpenAI "o1")
⇒ Dramatically improved performance in fields like mathematics and science

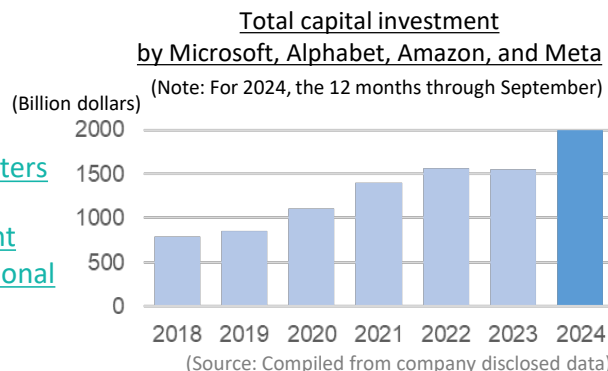
- Expansion of building customized models using proprietary data
⇒ Expanding use in consumer and industrial applications
- Development of small-scale language models and deployment to devices (e.g., "Gemini Nano", "Apple Intelligence")
⇒ Advantages in processing speed, cost, and safety
- Development of "AI agents" that autonomously perform tasks (e.g., Salesforce "Agentforce", Anthropic "Computer Use")
- Emergence of highly intelligent "humanoid robots" integrated with generative AI (e.g., Figure AI (U.S.), Tesla "Optimus")
⇒ Potential to replace various human activities

AGI

AI-related infrastructure



- Rapid expansion and establishment of AI data centers
- Competition for development and acquisition of computational resources (e.g., GPUs)



- Accelerating efforts to secure a massive amount of required electricity
In addition to renewable energies, moves to utilize nuclear power as baseload (e.g., Nuclear plant restart (Microsoft), development of SMRs(**) (Google, Amazon))
- Efforts to collect, organize, and utilize high-quality data, as well as specialized and proprietary data (e.g., partnerships with companies and institutions in media, automotive, manufacturing, and healthcare (OpenAI, Microsoft, Google), and the use of proprietary SNS platforms (Meta, xAI))
⇒ A source of competitive advantage

(*) Artificial General Intelligence (AGI). An AI system that can autonomously perform various intellectual tasks at a human equivalent level

(**) Small Modular Reactor (SMR). A next-generation nuclear reactor that miniaturizes and modularizes traditional reactors, enhancing safety and efficiency.