



R&R Weekly Column
By Brunello Rosa



Climate Strikes Are Pushing “Elites” To Rethink Advanced Economies’ Business Models

There have been a number of rallies around the world this past week, mostly of young people gathering to protest about the inaction of the global élites regarding the devastating phenomenon that is climate change. Rallies were held in 150 cities, [according to event organisers](#). These took place at the same time as the intervention [at the United Nations](#) by Greta Thunberg, one of the moral leaders of this global movement. We have already previously written, [in our column in August 2018](#), about the impact that climate change ([or, more appropriately, global warming](#)) could have on a number of economic, financial, political and geopolitical fronts. Last year we focused our attention on the existing link between climate change and migration flows, as immigration was and still is one of the most divisive political issues in both the US (where President Trump was suggesting to build a wall along the border with Mexico) and in Europe (where the [support for populist parties was increasing](#) as a result of the rise of immigration). In this respect, in 2019 the UN has made a giant leap forward in our view, by introducing the concept of [“climate migrants”](#), a term that will be even broader in scope than the initial category of “climate refugees”.

The introduction of this new concept might eventually have very practical political consequences. In their [recent meeting in Rome](#), French President Macron (who is preoccupied by the rise of Marine Le Pen’s *Rassemblement National*) promised Italy’s PM Conte (who needs to contain Salvini’s propaganda about there being a “migrant invasion”) to automatically redistribute only the asylum-seeker refugees arriving on Italy’s shores, but not the “economic migrants.” But if – in the not-too-distant future – the EU accepted the idea that those who are now considered “economic migrants” (i.e. people supposedly looking for a better life) are in fact “climate refugees” (i.e. people escaping the effects of climate change) then the number of people subject to automatic re-distribution would increase dramatically, making migration an EU-wide phenomenon as opposed to just a “law-and-order” issue for Greece and Italy to address on their own. The sooner this happens, the better. Turkey’s Erdogan, who pocketed EUR 6bn from the EU to keep the Syrian refugees in his camps, has [threatened to “open the gates” of migrants to Europe](#), unless the EU gives him more money to deal with this phenomenon. A new wave of migrants to Europe, similar to the 1.1mn people that Germany absorbed in 2015, could destabilise the EU and eventually lead to its implosion.

In this respect, French President Macron is very active, and put climate change as one of the key agenda points of the [G7 meeting in Biarritz](#). Macron suggested to [provide financial resources \(USD 20mn\) to Brazil to help the government](#) led by Bolsonaro to deal with the Amazon wildfires. The two had a [lively exchange of views](#), which unfortunately has not led to a solution. Also in Europe, Germany’s government unveiled [a EUR 40bn investment plan](#) in “climate protection measures,” which is thought to be Germany’s vehicle to provide fiscal stimulus to its ailing economy, which contracted by 0.1% in Q2 2019.

But the fight for climate change will involve also key actors from the financial industry. While the US continues to be on the side-lines of this fight, given Trump’s scepticism over the scientific foundations of global warming, Christine Lagarde (former IMF Managing Director) [pledged to “paint the ECB green”](#) in her inaugural audition before the EU parliament as ECB President. As Lagarde said, the “discussion on whether, and if so how, central banks and banking supervisors can contribute to mitigating climate change is at an early stage but should be seen as a priority.” In effect one of the pioneers of evaluating the [impact of climate change for central banking](#) is [BOE Governor Mark Carney](#). How to combine economic efficiency and productivity growth with the transition of major economic systems towards more sustainable sources of energy should be a key aspect of the [new form of capitalism that thought leaders such as Martin Wolf](#) believe should start to emerge in coming years, if liberal democracies want to survive.

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Looking Ahead

The Week Ahead: US Inflation To Remain Weak

In the US, the PMI composite is likely to decline into contractionary territory, below the 50-benchmark (Sep., c: 49.6; p:50.7). Personal Consumption Expenditures – The Fed’s inflation gauge – is expected to weaken, and still remain below the 2% target (PCE Aug., c: 1.3%; p:1.4%). As the Fed’s FOMC offered little indications on the possibility of further rate reductions, short of a major re-escalation in trade war, Chair Powell may find it hard to build the case for another cut this year. In the coming months, the Fed is likely to address the USD funding squeeze via a strengthening of repo operations.

In EZ, the Markit composite PMI is expected to further deteriorate (c: 51.2; p: 51.9), while remaining in expansion territory.

The Quarter Ahead: Trade Tensions, Brexit Risks, China’s Slowdown, Saudi-Iran Strains

The **global economy** is likely to grow at the slowest pace since the 2008 financial crisis, with business investment and trade hampered by the US-China dispute.

Next month, the **US and China** are unlikely to reach the much discussed, expected “interim trade deal”, with: 1) China to buy more American farm products; and 2) the Trump administration to: *i)* postpone tariff increases; and *ii)* ease restrictions on Huawei, the Chinese telecommunications company.

In China, the latest data (IP, fixed asset investment, retail sales, and auto sales) point to a weakening growth momentum and increase the likelihood of further policy easing by year-end. Going forward, the economy’s structural slowdown and a decline in profitability can induce financial stress.

In the EZ, Finland - who currently holds the EU’s rotating presidency – increased pressure on UK’s PM Johnson, asking him “to deliver concrete, written Brexit plans to the EU by the end of September”.

In South Korea, the government removed Japan from its “white list” of 29 nations that enjoy minimum trade restrictions – delaying the export of hundreds of sensitive materials that can be used for both civilian and military purposes.

In Saudi Arabia, the defense ministry showed evidence of Iranian involvement in the attacks on its oil facilities. Iranian officials have denied the accusations, and warned it would retaliate against any attack. Saudi Arabia already restored half of the lost crude production, and plans to have output fully restored by the end of September.

Last Week’s Review

Real Economy: Global Economy Slowing, US Economy Still Strong

In the US, IP rose more-than-expected in August, the largest increase this year (a: 0.6% m-o-m; c: 0.2%; p: -0.2%). Successive spikes in funding costs prompted the Fed to intervene with financial injections via repo auctions. For the second time in 2019, the Fed’s FOMC cut the key interest rate by 25bps, to an upper bound of 2.00% (p: 2.25); the decision – characterized by an unusual degree of dissent – left the markets uncertain about the direction of US MPs. The probability of 25bps Fed interest rate cut in December stands at 48%.

In the EZ, economic sentiment remains pessimistic, but is recovering faster-than-expected (ZEW Survey - Economic Sentiment Sep., a: -22.4; c: -32.2; p: -43.6). European banks requested only EUR 3.4bn (USD 3.75bn) at first TLTRO-III, a very low demand compared to previous auctions.

In China, both manufacturing (IP Aug., a: 4.4% y-o-y; c: 5.2%; p: 4.8%) and consumption (Retail sales Aug., a: 7.5% y-o-y; c: 7.9%; p: 7.6%) slowed down in August, due to trade-war related uncertainties.

In Japan and the UK, CBs kept policy rates unchanged at -0.1% and 0.75%, respectively. In Japan, inflation fell below expectations in August, to 0.3%, (National CPI, c: 0.6% y-o-y; p: 0.5%).

Financial Markets: Geopolitical Risks, A Tepid Fed And US Liquidity Stress Support Bonds

Market drivers: Expecting a more: *i)* dovish FOMC; and *ii)* proactive Fed in addressing USD funding concerns, the markets veered towards risk-off.

Stocks: w-o-w, global equity indices fell (MSCI ACWI, -0.2% to 527) driven by both DMs (S&P500, -0.5% to 2,992) and EMs (MSCI EMs, -1.0% to 1,017). Volatility rose (VIX S&P 500, +1.6 points to 15.3, 52w avg.: 17.1; 10y avg.: 17.1).

Bonds: w-o-w, global indices rose (BAML Global bond index, +0.7%). The 10y UST bond yield fell by 15bps, to 1.75%.

FX: w-o-w, the USD remained stable, as the Fed rate cut was already priced in (DXY, +0.3% to 98.513). The EUR and GBP fell (EUR, -0.5 to 1.102; GBP/USD, -0.2% to 1.248), EM FX weakened (MSCI EMs, -0.4% at 1,615), and the TRY weakened against the USD to 5.743 (w-o-w, -1.0%).

Commodities: Oil prices rose (Brent, +6.7% to 64.3 USD/b) after the attacks on Saudi infrastructure. Gold rose, showing its safe-haven appeal (Comex, +1.9% to 1,517USD/Oz).



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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year

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