



R&R Weekly Column  
By Brunello Rosa



## Climate Change and Green Investments Are Taking Centre Stage In Policy Agendas

We have discussed [several times](#) the importance of climate change and the repercussions it may have for the economies of various countries and the global geopolitical order as a whole. Among other things, climate change causes increased desertification in areas such as Sub-Saharan Africa, the Middle East and Latin America, [inducing millions of people to migrate](#) in search for a chance to live. This in turn has helped lead to the rise of populist leaders trying to block the arrival of undesired migrants. Lately, the [devastating fires in Australia](#) show what an extraordinarily hot summer can mean for the environment, here and now, not just in some distant future.

More recently, climate change has risen to the top of the agenda for institutions that were previously considered quite removed from this issue, such as the [International Monetary Fund](#) with the arrival of Kristalina Georgieva at its helm, the European Commission with [Ursula Von der Leyen's "Green Deal"](#), and central banks, with [Christine Lagarde's ECB](#) and [Mark Carney's Bank of England](#) leading the way. Not surprisingly, this issue were given high priority at [this year's meetings in Davos](#), even if it still remains unclear [how and when governments and multinationals](#) will finally decide to seriously tackle this crucial issue. Many hopes now rest on the result of the [COP26 Conference in Glasgow](#), to be held at the end of this year. But the experience with previous COP conferences suggests that there is a need to keep expectations at a realistic level.

In any case, it is extremely important that the level of awareness of the climate issue has finally increased, and that climate change now features very high in the agenda of policy makers. The European Union has decided to become a world leader in this regard, and to shape a large component of its future choices on environmental sustainability. [The "Green Deal" recently launched](#) has the potential to unlock up to EUR 1tn of public and private investments, generating hundreds of thousands of job opportunities. The Bank of England has already asked [financial institutions to stress-test their resilience to climate change](#), considering that (as the BIS recently stated) climate change could be a cause of financial instability, [if a "green swan" materialises](#). Among the various initiatives mentioned during [her latest press conference](#), Christine Lagarde said that the ECB will make sure that its corporate bond portfolio will be designed to incentivise environmental sustainability. In Germany, [the rise of the Green Party in opinion polls is constant](#), and in Austria the Greens joined the [new conservative government formed by Sebastian Kurz](#).

While the US seems still to be missing in action, the key risk identified by some is the so-called "[greenwashing](#)" process, whereby anything that seems socially acceptable or politically advantageous is promoted as being a "green" initiative. Some key policy figures, such as Bundesbank President Jen Weidmann, [recently made the point that central banks cannot replace](#) good environmental policies decided by democratically elected political leaders. Others fear that good old-fashioned counter-cyclical fiscal stimulus might be masked by "green investment" to stimulate aggregate demand, thus producing good results in the short run, but no effects in the future.

As it often happens, "[in medio stat virtus](#)". Climate change will need to be front and centre of policy makers' agendas. But abusing the term for marketing reasons might eventually damage the cause rather than support it.

### Our Recent Publications

- [Flash Preview: BoE To Remain On Hold \(But With The High Risk Of a Cut\) In January](#), by Brunello Rosa, Nouriel Roubini and Alessandro Magnoli Bocchi, 24 January 2020
- [Regional Elections To Send Shock Waves Through Italy's Political System](#), By Brunello Rosa, 22 January 2020
- [Flash Review: ECB Marginally Raises The \(Negative\) Balance of Risks And Launches Its Strategy Review](#), by Brunello Rosa, 23 January 2020
- [Flash Review: BoJ Remains on Hold With An Easing Bias, While Revising Down Its Inflation Outlook, and Up Its Growth Outlook](#), By Brunello Rosa and Farah Aladsani, 21 January 2020
- [Flash Review: Norges Bank Remains On Hold But Sends First Timid Signals Of Reduced Hawkishness](#), By Brunello Rosa and Farah Aladsani, 23 January 2020
- [Flash Preview: ECB On Hold As Downside Risks Modestly Fade, While Launching The Strategic Review](#), By Brunello Rosa and Nouriel Roubini, 20 January 2020
- [Regional Elections To Send Shock Waves Through Italy's Political System](#), By Brunello Rosa, 22 January 2020
- [GEOPOLITICAL CORNER: Over Impeachment, The Democrats' Hatred Is Backfiring](#), by John C. Hulsman, 14 January 2020

Looking Ahead

The Week Ahead: Stagnating US Economic, Fed and BoE on Hold

**In the US**, economic growth is expected to have stagnated (GDP Q4, c: 2.1% y-o-y; p: 2.1) and core inflation is likely to remain below the Fed's 2% target (Core PCE, c: 1.1% y-o-y; p: 1.6).

**In the US and the UK**, the Fed and BoE are expected to leave their interest rates unchanged at 1.75% and 0.75%, respectively.

The Quarter Ahead: UK Faces Brexit Day, US Impeachment Trial Reaching Its Final Days

**In the US**, in the final stages of Trump's impeachment trial, Democrats presented their arguments to the Senate, paving the way for Trump's lawyers to present their defence. In the Senate trial, if four Republicans vote along Democrats to win a simple majority of 51-49, more witnesses may be called, especially those that could not testify in the impeachment enquiry.

**In the US**, the market-implied probability of a 'no Fed rate-cut' scenario in 2020 fell to 28.6% (p: 40.3).

**In the UK**, current trading and security relationships will remain unchanged until year-end, while negotiations on future relations will begin in March. Ahead of Brexit on January 31 and after PM Johnson stated that 'the UK will diverge from Brussels regulations'; the EU has requested the right to sanction the UK to prevent 'competitive undercutting or freeriding' by British companies.

**In China**, the government is taking measures to slowdown the spread of coronavirus, such as restricting travel for 40 million people and imposing transport curbs on cities neighbouring the outbreak. The WHO has not labelled the outbreak as a global public health emergency, but noted 'it may become one', as the virus already spread across 4 continents.

**In the EZ**, while the ECB undergoes a strategic review of their inflation objectives and targets, President Lagarde warned that investors should not assume that the current monetary policy is 'locked in for the foreseeable future'.

Last Week's Review

Real Economy: The Manufacturing Slowdown Decelerates, DM Central Banks Stay 'On Hold'

**In the US**, manufacturing sector activity is slowing (Markit Manuf. PMI Jan., a: 51.7; c: 52.2; p: 52.4) but rising in services (Markit Serv. PMI, a: 53.1, a 9-month high; c: 52.9; p: 52.8). Overall, the PMI index is showing strength (Markit Comp. PMI, a: 53.1; c: 52.5; p: 52.7).

**In the EZ**, manufacturing sector activity improved, while remaining in contraction (Markit Manuf. PMI, a: 47.8; c: 46.8; p: 46.3), driven by an unexpected improvement in German manufacturing (Markit Manuf. PMI, a: 45.2; c: 44.5; p: 43.7). Overall, services sector activity slowed (EZ Markit. Serv. PMI, a: 52.2; c: 52.8; p: 52.8). The ECB kept its policy stance unchanged in January.

**In Japan**, January's manufacturing PMI data rose to 49.3 (c: 48.7; p: 48.4), while remaining below the 50-benchmark. Headline inflation accelerated on higher food prices (a: 0.8% y-o-y; c: 0.4; p: 0.4), while core inflation – which the BoJ targets at 2.0% – rose to 0.7% y-o-y (c: 0.7; p: 0.5). The BoJ left its main policy (deposit) rate unchanged at -0.1% and kept in place its 'yield curve control', to 'maintain 10-year JGB yields around zero percent'.

**In the UK**, private sector activity marked its first expansion in five months (Markit. Comp. PMI, a: 52.4; c: 50.6; p: 49.3). Inflation is rising, while remaining below the BoE's target.

**In Canada and Norway**, the BoC and Norges Bank kept interest rates unchanged at 1.75% and 1.50%, respectively.

**In China**, the PBoC kept its lending benchmark rate – the one-year loan prime rate – steady at 4.15%, while supporting financial markets with a liquidity injection of CNY 240.5 bn (USD 34.9 bn) via its medium-term lending facility (MTLF).

Financial Markets: 'Risk-Off' Sentiment On Coronavirus Outbreak-Related Concerns

**Market drivers:** The spread of the coronavirus and poor economic data such as: *i)* weak US industry data; and *ii)* slowing EZ services sector spurred a 'risk-off' sentiment in the financial markets.

**Stocks:** w-o-w, global indices fell (MSCI ACWI, -1.0% to 573), driven by DMs (S&P 500, -1.0% to 3,295; Eurostoxx 50, -0.8% to 3,779) and EMs (MSCI EMs, -2.4% to 1,119); Chinese stocks suffered the greatest loss (Shanghai Comp., -3.2% to 2,9777). Volatility rose (VIX S&P 500, +2.5 points to 14.6, 52w avg.: 14.8; 10y avg.: 16.8).

**Bonds:** w-o-w, returns rose (BAML Global, +0.8% to 287.9), driven by 'risk-off' sentiment; across DMs yields fell (10y UST, -16 bps to 1.68%; 10y German bund, -12 bps to -0.33%).

**FX:** w-o-w, the USD rose (DXY, +0.2% to 97.853; USD/JPY, +0.8% to 109.270). The CNY declined on fears of a deeper-than-expected economic slowdown in China (USD/CNY, -1.1% to 6.936).

**Commodities:** w-o-w, oil prices fell (Brent, 6.4% to 60.7 USD/b) as the virus outbreak disrupts travel. Given its haven appeal, gold rose (Gold, +0.9% to 1,570 USD/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