



*R&R Weekly Column
By Brunello Rosa*



Political Violence Returns In The US While Social Tensions Increase Worldwide

In the last few days, the streets of [Minneapolis and other major US cities](#) have been filled by people protesting the treatment of George Floyd, who died while in police custody. The facts are sadly [well known](#), and the fact that the police officer Derek Chauvin has been arrested did not placate the ire of the African-American community or the wider population. Protests have become violent in the last couple of days, as they have in previous similar occasions, most notably in [Los Angeles in 1992](#), after a trial jury acquitted LAPD officers' accused usage of excessive force in the arrest and beating of Rodney King.

So, this type of episode is unfortunately not new, and it will likely happen again in future. What makes this episode peculiar and particularly noticeable in this period is that it is happening as social tensions are clearly on the rise, with a number of protests being staged in various parts of the US [against the lockdown measures introduced in many states](#). The [most worrying of these](#) took place outside the Michigan Capitol building in Lansing on April 30, when a number of protesters showed up equipped with firearms.

This is quite concerning, considering this is a year in which one of the most tense presidential elections in US history will take place. The election will be tense not just because of the logistical difficulties resulting from Coronavirus, or from the fact that [the margin between the two contenders is likely to be small](#), but also because there is widespread concern that if Trump were to lose, he might not accept the result – even were it to come in the form of a verdict from the Supreme Court – and will instead [refuse to leave the White House](#). Our two-part report on the [successes](#) and failures of Trump digs further in this matter. Part Two of the report will be published on Tuesday on R&R's [geopolitical corner](#).

These episodes are taking place in the US, but other parts of the world are not immune from this same sort of situation. [Protests against lockdown measures](#) are happening in many different countries: the UK, Germany, Australia, Belgium, Italy, Poland, etc. At this stage, most of these protests are motivated by social anger against the restrictions that have been placed on personal liberties. In some cases, they have also been motivated by dissatisfaction regarding the economic impact of the measures being adopted to stop the spread of the virus. But even if the lockdown measures were to be alleviated in coming months, social tension might not ebb.

In fact, the real economic impact of the anti-Covid measures will be felt in the autumn. In Q2, there was an immediate impact deriving from the closure of economic activities. But those companies that could remain open used these months to process the orders arrived until the end of Q1 2020. But in Q3/Q4 2020 it will be clearer how many businesses have in fact survived, and how many new orders will have arrived. The risk is that the collapse in economic activity of Q1/Q2 will have a [long-lasting impact on economic systems](#), with serious repercussions on employment and, therefore, on social cohesion. This is the reason why governments around the world are trying to gradually re-open their economic systems, and why support in the form of government policy will need to remain abundant for the foreseeable future.

Our Recent Publications

 [China: Escalating Cold War With The US, Slow Post-Pandemic Recovery](#), by Alessandro Magnoli Bocchi and Nouriel Roubini, 28 May 2020



 [Central Bank Previews: Reserve Bank of Australia and Bank of Canada Likely To Take A Breather in June](#), by Brunello Rosa, Fawaz Al Mughrabi and Karmen Meneses, 29 May 2020

Looking Ahead

The Week Ahead: Chinese PMIs Likely To Show Recovery, The ECB Likely To Announce QE Expansion

In China, NBS PMIs are likely to show a recovery, with: i) manufacturing PMIs rising to 51.0 (p: 50.8); and ii) services PMI rising to 54.5 (p: 53.2). CBs to announce further easing.

In the EZ, the ECB is expected to: 1) keep its key policy rates unchanged; while 2) announcing a QE expansion of EUR 500bn, via PEPP purchases of public and private securities.

The Quarter Ahead: Multilateralism To Suffer, US-China Strains To Escalate, DM CBs To Maintain Easing Bias

US-China relations to deteriorate further. China's government approved a plan to impose national security laws on Hong Kong - despite the US government's declaration that such move would 'signal that Hong Kong is no longer autonomous from Beijing'. As a result, the US announced it will: i) revoke special trade privileges or Hong Kong; and ii) sanction Chinese officials.

In the US, President Trump took a strong stance against the WHO, as he: 1) repeated his criticism of the organization's handling of: i) the COVID-19 pandemic; and ii) China's government 'cover-up' efforts; and 2) announced: i) the suspension of annual contributions amounting to USD 500m; and ii) the US membership withdrawal.

In the US, intensifying racial tensions resulted in widespread demonstrations, leading President Trump to raise the prospects of military intervention to contain the protests; the National Guard was deployed in Minneapolis, Minnesota. The Fed's Chair Powell stated that the Fed is 'strongly committed to deploying measures' to help the economy during the pandemic, signaling readiness to take additional action, if needed.

In the EZ, to support the post-pandemic economic recovery the EC unveiled its proposal for a EUR 750bn fund, enabled to issue debt backed by the bloc's members. The fund will: i) provide EUR 500bn in grants to the hardest-hit countries; ii) lend EUR 250bn; and iii) be supported by a seven-year budget that includes: a) new revenues streams, such as a digital and carbon tax; and b) cuts on spending for defense and administration.

Last Week's Review

Real Economy: Growth Falls Sharply; Geopolitical Tensions Rise; Protests Spread In The US

In the US, in Q1 the economy shrank faster-than-expected (a: -5.0% y-o-y; c: -4.8; p: 2.1), due to a large inventory drawdown. For the week ending on May 23, the number of 'initial unemployment claims' declined - in line with consensus - to 2.1m (c: 2.1m; p: 2.5m), the lowest increase since job losses began in March; similarly, 'continuing claims' marked the first decrease during the pandemic period (a: 21.1m; c: 25.8m; p: 24.9m). In April, 'durable goods orders' sank by -17.2% m-o-m (c: -19.0; p: -16.6); yet, offering some optimism, 'core capital goods' – i.e.: 'non-defense capital goods' orders excluding aircrafts, a leading indicator for capital expenditure – declined by -5.8% m-o-m, against expectations of a -10.0% contraction (p: 1.6%). Personal spending contracted by -13.6% m-o-m (c: -12.6; p: -6.9), while personal incomes rose by 10.5% (c: -6.5; p: -2.2) - given a surge in government transfer payments.

In the US, the PCE – the Fed's preferred inflation gauge – eased to 0.5% y-o-y (p: 1.3); core PCE – which excludes volatile food and energy prices - slowed to 1.0% (c: 1.1; p: 1.7).

In the EZ, the May inflation rate declined to 0.1% y-o-y (c: 0.1; p: 0.3) and core inflation remained flat at 0.9% (c: 0.8).

In Japan, April data suggest the economy is falling into a recession even deeper than in Q1, as: i) retail trade contracted by -13.7% y-o-y (c: -11.5; p: -4.7%); and ii) IP shrank by -14.4% y-o-y (c: -10.6; p: -5.2).

In Turkey, in Q1, before the economic hit of COVID-19, GDP expanded by less than expected at 4.5% y-o-y in Q1 (c: 5.4; p: 6.0).

Financial Markets: Recovery Hopes Outweigh Negative Economic Data; Stocks Rise, Bonds Flat

Market drivers: investor sentiment rose on eased lockdowns and optimism about vaccine development.

Stocks: w-o-w, global indices rose (MSCI ACWI, +3.6%, to 509), driven by the US (S&P 500, +3.0% to 3,044) and the EZ (Eurostoxx 50, +5.0% to 3,055). US equities were buoyed by a milder-than-expected US response to China's actions in Hong Kong – e.g. most analysts had feared the scrapping of the 'phase one' trade deal. EMs rose (MSCI EMs, +2.8% to 930).

Bonds: w-o-w, returns were flat (BAML Global, +0.2% to 293.8); the yield on a 10y UST fell by 2bps to 0.64%. Volatility fell to 27.5 (p: 28.2), but remains above historical averages (52w: 22.3; 10y: 17.2).

FX: w-o-w, the USD weakened (DXY, -1.5% to 98.344), while both EUR and GBP strengthened (EUR/USD, +1.8% to 1.110; GBP/USD, +1.5% to 1.234).

Commodities: Oil rose on monetary stimuli hopes, and WTI closed above Brent (Brent, +0.6% to 35.3 USD/b; WTI, +6.7% to 35.5 USD/b). Gold kept its safe haven appeal (-0.4% to 1,726 USD/Oz.).



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The picture in the front page comes from [this website](#)



Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	M5S	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 Ryal
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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