Rosa & Roubini
ASSOCIATES

MAKING SENSE OF *THIS* WORLD — *30 November 2020*

R&R Weekly Column
By Brunello Rosa

The Signing of RECP Signals That Globalisation Is Not Dead

In mid-November, the member states of the Association of Southeast Asian Nations (ASEAN), together with Australia, China, Japan, South Korea and New Zealand signed the Regional Comprehensive Economic Partnership (RCEP) Agreement. The Agreement will improve market access with tariffs and quotas eliminated in over 65% of goods traded and make business predictable with common rules of origin and transparent regulations, upon entry into force. The RCEP is likely to be the one of the largest free trade agreements in history. It will cover "a market of 2.2 billion people, with a combined size of US$26.2 trillion or 30% of the world's GDP," according to its signatories.

Most importantly, the agreement signals that although globalisation may be not be in the greatest shape, it is not dead. It should not come as a surprise that the signing of the agreement came around two weeks after the US presidential election that have brought back an internationalist president such as Joe Biden to the White House. Biden was among the architects of the defunct Trans-Pacific Partnership (TPP), which was resurrected by Japan's PM Shinzo Abe under the name of Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

In fact, after four years in which the Trump administration has worked to demolish the international order created by Republican and Democratic presidents alike over the past few decades – pulling out the US of the Joint Comprehensive Plan of Action with Iran, the Paris agreement on climate change, the above-mentioned TPP, NAFTA with Mexico and Canada, the World Health Organization, and withdrawing US soldiers from the Middle East and Afghanistan and even from NATO member states such as Germany (to take just a few examples) – the new administration will likely try to reassert the US role in the world as being the cornerstone of globalisation. This is happening at a time in which even a Conservative government in the UK, just about to pull out of the EU, is signing trade deals with Japan and Canada.

As discussed in our recent report, while Biden will try to undo some of the damage made to the international position and reputation of the US by his predecessor (just as Trump tried to undo what he thought were the mistakes of the Obama administration), he would nevertheless be making a mistake if he simply tried to turn the clock back by a few years and ignore what has happened in the world in the meantime. The backlash against globalisation has been real, even if represented by unlikely champions such the billionaire Trump. In France, the Gilet Jaunes protests has threatened a globalist leader such as Emmanuel Macron, while around the world autocratic and protectionist leaders have emerged. Biden will have to take into account the events of the last few years if he wants to succeed on the world stage of today.

In any case, the Covid pandemic has balkanised the global supply and value chains, fostered protectionism and led to border closures. The damage caused to the global economy is immense, and its social consequences will be felt for years to come. It is impossible to think of an enduring recovery without a reopening of the economy and relaunching of international travel and trade. Globalisation has had plenty of flaws, and caused endless discontent, but it has managed to take hundreds of millions of people out of poverty, especially in Asia. That is a fact the newly signed RCEP agreement makes abundantly clear.

Our Recent Publications

- Flash Preview: RBA To take a Breather In December, *by Brunello Rosa and Karmen Meneses, 27 November 2020*
- Flash Review: Riksbank Expands And Extends QE, *by Brunello Rosa and Fawaz Sulaiman Al Mughrabi, 26 November 2020*
- MARKET VIEWS: Is There HOPE for US Commercial Real Estate?, *by Peter Cecchini, 25 November 2020*
- **GEOPOLITICAL CORNER:** The Problem With Biden's Backward-Looking Foreign Policy, *by John C. Hulsman, 24 November 2020*

Looking Ahead

The Week Ahead: US and EZ Unemployment Rates Are Expected To Remain Flat

In the US, while November non-farm payrolls are expected to fall to 500k (*p:* 638k), the unemployment rate is expected to remain unchanged at 6.7% (*p:* 6.9%).

In the EZ, October's u/e rate is expected to stay flat at 8.4% (*p:* 8.3%); yet, retails sales are expected to increase by 2.9%y-o-y (*p:* 2.2%).

In Japan, October's IP is expected to decline further to -14.5% y-o-y (*p:* -0.9%), but retails sales are expected to ease to -7.7% y-o-y (*p:* -8.7%).

The RBA is expected to keep its policy rate unchanged at 0.10%.

The Quarter Ahead: Global Economy To Benefit From Vaccine Distribution And Political Stability; CBs To Stay Dovish

Despite near-term uncertainty, 'risky assets' are likely to outperform 'safe havens', as - led by consumer spending in the US and China - the global economy improves, lifting inflation expectations.

In the US, the head of the US government's "COVID-19 vaccine task force" announced that *"the first doses will hopefully be administered by mid-December"*. The plan is to ship vaccines to immunization sites within 24 hours of FDA's approval on December 11. The transition to President-elect Joe Biden's presidency has officially started, as President Trump acknowledged he will *"leave the White House if Mr. Biden's win is confirmed by the Electoral College"*. In the meantime, President-elect Biden is likely to appoint the former Fed Chair Ms. Janet Yellen to the post of Treasury Secretary.

Still in the US, Fed officials: *1)* discussed plans to provide clearer information about "*how long they will keep purchasing USTs and MBSs*", by explicitly linking the 'stimulus-time frame' to economic conditions; *2)* declared they are prepared to roll out the revised guidance "*as soon as the next meeting*"; and *3)* considered ways to provide more stimulus to the economy, if needed.

In the EU, face-to-face Brexit talks will resume between the EU and UK. The chief Brexit negotiator Mr. Michel Barnier stated: *'the virtual talks last week were largely fruitless*'.

In Saudi Arabia, Crown Prince Mohammed bin Salman stepped up the efforts to resolve the 3-year old dispute with Qatar, to show a conciliatory approach to the incoming Biden administration.

In Iran, the assassination of a top nuclear scientist was blamed on "*terrorists*", with "*serious indications of Israeli involvement*" – making efforts to restart diplomacy even more difficult for US President-elect Joe Biden.

Last Week's Review

Real Economy: Vaccines Upcoming, But The Recovery Is Hindered By Lockdown Measures

In US, November PMI data pointed to a sustained recovery, as: *i)* manufacturing edged higher to 56.7 (*c:* 53.0; *p*: 53.4); and *ii)* services continued to expand, to 57.7 (*c:* 55.0*; p:* 56.9). Yet, in the week ending on November 21, the number of Americans filing for unemployment benefits rose to 778k (*c:* 730k; *p*: 748k). October's durable goods expanded by 1.3% m-o-m (c: 0.9%; *p:* 2.1%), marking the sixth consecutive month of gains. PCE fell to 1.2% y-o-y (*p:* 1.4%), and core-PCE – the Fed's preferred inflation gauge – eased to 1.4% y-o-y (*c:* 1.4%; *p:*1.6%).

In the EZ, November's PMI data showed: *i)* manufacturing declining to 53.6 (*c:* 53.1; *p:* 54.8); and *ii)* services falling to 41.3 (*c:* 42.5; *p:* 46.9), pointing to the steepest month of contraction since May, as countries introduced more aggressive measures to counter rising coronavirus cases.

Sweden's Riksbank kept its policy rate unchanged at 0% but expanded asset purchases from SEK 500bn to "*up to SEK 700bn*", until December 2021.

Financial Markets: Stocks Reach New Highs, Volatility Falls; Bonds Flat, Oil Up, Gold Down

Market drivers: a new round of 'vaccine optimism' and diminishing political uncertainty helped equity markets build on recent gains. As a result, ***global stocks rose w-o-w*** (MSCI ACWI, +2.3%, to 624) with the S&P 500 hitting a new record high (+2.3%, to 3,638). Volatility fell (20.8; *p:* 23.7) to February levels. In Europe, shares rose (Eurostoxx 50, +1.7%, to 3,528) for a fourth consecutive week, fueled by: *i)* positive vaccine developments; *ii)* fading US election uncertainties; and *iii)* expectations that the US Congress may reach a 'stimulus compromise'.

Fixed income: w-o-w global bonds remained flat (BAML Global, 0.0% at 299.2), with UST yields modestly higher (UST, +1 bps, to 0.84%).

FX: w-o-w, the USD index weakened against other currencies (DXY, -0.7%, to 91.790; EUR/USD, +0.9%, to 1.196). The TRY fell by -2.6% to 7.833, after the CBT simplified credit channels.

Commodities: prospects of an OPEC+ production cut extensions lifted oil prices (Brent, +7.2% to 48.2 USD/b). As optimism about the recovery grew, gold kept falling (-4.4% to 1,788 USD/Oz.).

@RosaRoubini Rosa & Roubini Rosa&Roubini Associates

For more information, please call us on +44 (0)207 1010 718 or send us an email to info@rosa-roubini-associates.com

www.rosa-roubini-associates.com

118 Pall Mall, London SW1Y 5ED

Farah Aladsani *contributed to this Viewsletter.*

The picture in the front page comes from this website

Abbreviations, Acronyms and Definitions

a	*Actual*
AKP	*Justice and Development Party, Turkey*
ann.	*annualized*
ARS	*Argentinian Peso*
avg.	*Average*
bn	*Billion*
BoC	*Bank of Canada*
BoE	*Bank of England*
BoJ	*Bank of Japan*
bpd	*Barrels per day*
bps	*Basis points*
BS	*Balance sheet*
c	*Consensus*
C/A	*Current account*
CB	*Central bank*
CBB	*Central Bank of Bahrain*
CBK	*Central Bank of Kuwait*
CBT	*Central Bank of Turkey*
CDU	*Christian Democratic Union, Germany*
CNY	*Chinese Yuan*
CPI	*Consumer Price Index*
DJIA	*Dow Jones Industrial Average Index*
DJEM	*Dow Jones Emerging Markets Index*
d-o-d	*Day-on-day*
DXY	*US Dollar Index*
EC	*European Commission*
ECB	*European Central Bank*
ECJ	*European Court of Justice*
EIA	*US Energy Information Agency*
EM	*Emerging Markets*
EP	*European Parliament*
EPS	*Earnings per share*
EU	*European Union*
EUR	*Euro*
EZ	*Eurozone*
Fed	*US Federal Reserve*
FOMC	*US Federal Open Market Committee*
FRB	*US Federal Reserve Board*
FX	*Foreign exchange*
FY	*Fiscal Year*
GCC	*Gulf Cooperation Council*
GBP	*British pound*
GDP	*Gross domestic product*
IMF	*International Monetary Fund*
INR	*Indian Rupee*
IPO	*Initial public offering*
IRR	*Iranian Rial*
JPY	*Japanese yen*
k	thousand
KSA	*Kingdom of Saudi Arabia*
LN	*Northern League, Italy*
M5S	*Five Star Movement, Italy*
m-o-m	*Month-on-month*
mb	*Million barrels*
mb/d	*Million barrels per day*
MENA	*Middle East and North Africa*
MHP	*Nationalist Movement Party, Turkey*
mn	*Million*
MPC	*Monetary Policy Committee*
NAFTA	*North-American Free Trade Agreement*
NATO	*North Atlantic Treaty Organization*
OECD	*Organization for Economic Cooperation and Development*
Opec	*Organization of Petroleum Exporting Countries*
p	*Previous*
P2P	*Peer-to-peer*
PBoC	*People's Bank of China*
PCE	*Personal Consumption Expenditures*
PE	*Price to earnings ratio*
PM	*Prime minister*
PMI	*Purchasing managers' index*
pps	*Percentage points*
pw	*Previous week*
QCB	*Qatar Central Bank*
QAR	*Qatari Riyal*
QE	*Quantitative easing*
q-o-q	*Quarter-on-quarter*
RE	*Real estate*
RBA	*Reserve Bank of Australia*
RRR	*Reserve Requirement Ratio*
RUB	*Russian Rouble*
SWF	*Sovereign Wealth Fund*
tn	*Trillion*
TRY	*Turkish Lira*
UAE	*United Arab Emirates*
UK	*United Kingdom*
US	*United States*
USD	*United States Dollar*
USD/b	*USD per barrel*
UST	*US Treasury bills/bonds*
VAT	*Value added tax*
VIX	*Chicago Board Options Exchange Volatility Index*
WTI	*West Texas Intermediate*
WTO	*World Trade Organisation*
w	*Week*
w-o-w	*Week-on-week*
y	*Year*
y-o-y	*Year-on-year*
y-t-d	*Year-to-date*
ZAR	*South African Rand*
2y; 10y	*2-year; 10-year*

Rosa & Roubini ASSOCIATES

Rosa & Roubini Associates Ltd is a private limited company registered in England and Wales (Registration number: 10975116) with registered office at 118 Pall Mall, St. James's, London SW1Y 5ED, United Kingdom. VAT registration number GB 278 7297 39. ***Analyst Certification****: We, Brunello Rosa and Nouriel Roubini, hereby certify that all the views expressed in this report reflect our personal opinion, which has not been influenced by considerations of Rosa&Roubini Associates's business, nor by personal or client relationships. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the views expressed in this report.* ***Disclaimer****: All material presented in this report is provided by Rosa & Roubini Associates-Limited for informational purposes only and is not to be used or considered as an offer or a solicitation to sell or to buy, or subscribe for securities, investment products or other financial instruments. Rosa & Roubini Associates Limited does not conduct "investment research" as defined in the FCA Conduct of Business Sourcebook (COBS) section 12 nor does it provide "advice about securities" as defined in the Regulation of Investment Advisors by the U.S. SEC. Rosa & Roubini Associates Limited is not regulated by the FCA, SEC or by any other regulatory body. Nothing in this report shall be deemed to constitute financial or other professional advice in any way, and under no circumstances shall we be liable for any direct or indirect losses, costs or expenses nor for any loss of profit that results from the content of this report or any material in it or website links or references embedded within it. The price and value of financial instruments, securities and investment products referred to in this research and the income from them may fluctuate. Past performance and forecasts should not be treated as a reliable guide of future performance or results; future returns are not guaranteed; and a loss of original capital may occur. This research is based on current public information that Rosa & Roubini Associates considers reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Rosa & Roubini Associates, its contributors, partners and employees make no representation about the completeness or accuracy of the data, calculations, information or opinions contained in this report. Rosa & Roubini Associates has an internal policy designed to minimize the risk of receiving or misusing confidential or potentially material non-public information. We seek to update our research as appropriate, but the large majority of reports are published at irregular intervals as appropriate in the author's judgment. The information, opinions, estimates and forecasts contained herein are as of the date hereof and may be changed without prior notification. This research is for our clients only and is disseminated and available to all clients simultaneously through electronic publication. Rosa & Roubini Associates is not responsible for the redistribution of our research by third party aggregators. This report is not directed to you if Rosa & Roubini Associates is barred from doing so in your jurisdiction. This report and its content cannot be copied, redistributed or reproduced in part or whole without Rosa & Roubini Associates' written permission.*