



R&R Weekly Column  
By Brunello Rosa



## G7 Meeting Reinforces Global Alliance Against China

During the G7 meeting in Cornwall a number of important issues were discussed, and some key decisions were made. [The G7 agenda](#) included, among other items, the adoption of a minimum corporate tax at the global level (of “at least 15%”; we [discussed this issue in our previous column](#)), a global vaccination plan that would allow a large share of the world population to be vaccinated against Covid by the end of 2022, and commitments on climate change (ahead of the [crucial COP 26 conference](#), which will be held in Glasgow in November 2021). While each of these issues is of paramount importance, this G7 meeting is likely to be remembered as the beginning of a new relationship between the world’s major economies and democracies and China.

As we have [discussed in the past](#), it was unrealistic to hope that after the end of the Trump’s presidency the relationship between the US and China would normalise. The [US and China are at loggerheads with each other](#), as China is threatening the international supremacy of the incumbent super-power, the US. As [Graham Allison argued](#), the two countries involved may be “destined for war”. In 12 out of the 16 historical cases analysed by Allison in which a rising power challenges the position of an established hegemon, the incumbent and challenger powers ended up in some form of open military conflict. In this case, the [US and China are already involved in a new Cold War](#), which involves three fronts: a trade conflict; a technological rivalry and the breakup of historical value and supply chains. The strategic position of the US, which now views China as a strategic rival, as opposed to a partner or competitor, was always going to remain the same even after the end of the Trump’s presidency and the return of the Democrats to the White House.

Examples of this anti-Chinese stance in Cornwall abound. G7 Countries have invited South Korea, India and Australia to attend the proceedings of the conference; these three countries have recently soured their relationship with China. Additionally, President Biden has put “maximum pressure” on the G7 countries to stigmatise China’s repression of the Uyghurs in Xinjiang, as well as its actions in Hong Kong. Most importantly, the US has launched an infrastructure investment plan to counter China’s Belt and Road initiative, in an attempt to at least slow down the expansion of China’s sphere of influence in Asia, Africa and Europe.

The plan called “[build back better for the world](#)” aims at providing the countries involved with improved access to financing for low-carbon projects such as wind farms and railways. The plan wants to provide an alternative to BRI’s investment, but one that is based on democratic values and Western standards of doing business, and which does not entail saddling recipient countries with large amount of debt that is difficult to repay and creates a de-facto dependence of the country on China (such as, for example, the [recent case of Montenegro](#)).

The Europeans and Japan have been asked to gang up against China by their US ally, but are reportedly lukewarm about the extent of the American initiative. They fear jeopardising their relationship with China, which remains a key trading partner and an indispensable ally in the fight against climate change and future pandemics. Also, Biden’s plan is already facing resistance in the attempt to pass it through the US Congress. So one can imagine how difficult it could be to convince six other sovereigns states to back it up with their own domestic legislation. In any case, the US will probably get away with what they want in terms of official commitment, but what portions of this commitment will translate into actually implemented policies remains yet to be seen.

### Our Recent Publications

 [Flash Preview – Bank of Japan To Further Extend Its Pandemic-Relief Programs](#), by Brunello Rosa and Karmen Meneses, 11 June 2021

 [Flash Review: ECB Upgrades the Economic Outlook, But Keeps the Higher Pace of PEPP Purchases](#), by Brunello Rosa, 10 June 2021

 [Flash Review: Bank of Canada Keeps Policy Stance and Rhetoric Unchanged in June](#), by Brunello Rosa and Karmen Meneses, 9 June 2021

 [Flash Preview – ECB Likely to Keep its Current Pace of PEPP Purchases](#), by Brunello Rosa, Nouriel Roubini and Karmen Meneses, 7 June 2021

Looking Ahead

The Week Ahead: Inflationary Pressures Remain Elevated In Eurozone and US, Subdued in Japan

**In the US**, May retail sales are expected at 0.0% m-o-m (*p*: -0.4%) and to increase to 55% y-o-y (*p*: 51.2%).

**In the EZ**, core inflation is expected to increase to 0.9% y-o-y (*p*: 0.7%), while the inflation rate is seen to reach 2.0% y-o-y (*p*: 1.6%).

**In Japan**, May's core inflation rate is projected to remain muted at -0.1% y-o-y, while headline inflation is seen to fall further to -0.3% y-o-y (*p*: -0.4%).

The Quarter Ahead: Inflationary Pressures Linger; US Government Targets Big Techs; Geopolitical Tensions Remain Elevated

**Across DMs**, pandemic support programs distort labor market data policymakers and investors rely on to: 1) assess spare capacity; and hence 2) underlying inflation pressures. **In the US**, prices are spiking - prompting growing warnings that a wave of inflation could threaten the global economy, if price pressures persist.

**Emerging Markets** face spiraling costs for commodities. Rising prices in China – by far the world's biggest manufacturer and exporter – could be felt around the world, as China's government announced inflation-related subsidies for SMEs.

**In the US**, lawmakers introduced five bills aimed at limiting the power held by Big Tech companies. The bills were drafted after a 16-month investigation into the powers of Amazon, Apple, Google and Facebook, and address topics including: *i*) data; *ii*) mergers; and *iii*) the competitive behavior of these companies – which could ultimately lead to forced asset sales.

**US Fed officials** reported that household wealth jumped to a record USD 136.9tn at the end of March, suggesting the current stimulus for economic growth is adequate, as the pandemic recedes and the country re-opens.

**At the G7 summit**, PM Boris Johnson faced renewed pressure from EU leaders to resolve post-Brexit tensions in Northern Ireland, after the British PM refused to “accept a plan to cut border checks in the region, by aligning with EU food rules”. At the moment, the protocol leaves an open border on the island of Ireland, but sets up checks on selected products moving from Great Britain to Northern Ireland in case they cross into the EU single market.

Last Week's Review

Real Economy: DM Growth To Recover From Q1 Slump; Inflation Pressures Build Worldwide

**In the US**, consumer sentiment increased above-consensus in June, to 86.4 (*c*: 84.0; *p*: 82.9), boosted by stronger growth in the real economy – with an all-time record number of consumers anticipating a net decline in unemployment.

**Still in the US**, in May the inflation rate accelerated to 5% y-o-y (*c*: 4.7%; *p*: 4.2%), while core inflation rose to 3.8% y-o-y (*c*: 3.4%; *p*: 3.0%) –the highest reading since August 2008, due to: *i*) low base effects from last year; *ii*) rising consumer demand as the economy reopens; *iii*) soaring commodity prices; *iv*) supply constraints; and *v*) higher wages, as companies grapple with a labor shortage.

**In the EZ**, Q1-2021 GDP declined by -1.3% y-o-y (*c*: -1.8%; *p*: -1.8%) and the economy entered a double-dip recession – as activity and demand were hit by the imposition of fresh distancing and lockdown measures.

**In Japan**, Q1-2021 GDP shrank less-than-expected by -3.9% (*c*: -4.8%; *p*: -11.7%), marking the first contraction since Q2-2020, amid: *i*) a resurgence of COVID-19 cases and slow vaccine rollouts; and *ii*) capital expenditure falling less than initially anticipated.

**In EZ and Canada**, both ECB and BoC left their interest rate unchanged as expected at 0.0% and 0.25%, respectively.

Financial Markets: Global Equities Hit New Highs; USD Gains As Oil Prices Continue To Rise

**Market drivers**: investor sentiment was boosted by: *i*) the prospect of a robust economic recovery overshadowing growing inflationary pressure; and *ii*) the Fed's narrative that a surge in inflation is transitory, due to supply and demand imbalances.

**Global equities** rose w-o-w (MSCI ACWI, +0.4%, to 720). In the US, a decrease in longer-term bond yields helped push the S&P 500 Index to a record high (+0.4% w-o-w, to 4,247), with health care stocks outperforming. In the EZ, shares gained ground for a fourth consecutive week (Eurostoxx 50, +0.9%, to 4,127), lifted by the ECB's pledge to continue its bond purchases into the coming quarter.

**Fixed Income**: w-o-w global bonds rose (BAML Global, +0.5% to 294.5) and UST yields fell (-10bps, to 1.46%), despite rising inflation in the US.

**FX**: w-o-w, the USD rose, as US consumer sentiment lifted economic prospects (DXY, +0.5%, to 90.555; EUR/USD -0.5%, to 1.211).

**Commodities**: Oil prices rose (Brent, 1.1% to 72.7 USD/b), due to optimism over strong fuel demand, as the economies reopen and travel picks up. Gold prices fell (-0.7% to 1,877 USD/Oz), amid USD strength and a rise in risk appetite.



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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