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R&R Weekly Column
By Brunello Rosa

COP26: An Unambitious Agreement Does Not Solve Global Warming

After a two-week marathon summit, an agreed-upon text finally emerged at the end of the CP26 conference in Glasgow. Signatory countries are committing to limit the increase in global temperature to well below 2C since pre-industrial times, and ideally to 1.5C. They are also committing to increase the funds available to help countries fight global warming and adapt to climate change. This 1.5C limit was already agreed on in Paris in 2015. The direction towards agreeing to these goals was established by the Kyoto Protocol in December 1997, when COP3 was held.

The problem here is that global temperature has already increased by 1.1C since pre-industrial times, and so long as the amount of CO2 injected into the atmosphere continues at the current, or even a slightly decelerated pace, one cannot see a meaningful deceleration for the increase in global temperatures in sight. Though reaching zero net emissions by 2050 (which in practice would mean emissions that are fully compensated for by offsetting actions, such as planting new forests), or even by 2030 – which some countries are pledging to accomplish - may help to achieve the final goal, nevertheless international cooperation remains of the essence.

In this respect, the final text of the COP26 contains an unwelcome last-minute change. Instead of aiming at "phasing out" carbon emissions, India has asked instead to phase them "down", a significant softening of the initial proposal. Interestingly, while all eyes were focused on China, ultimately it was India that managed to water down the agreement. India is the country in the world that most relies on carbon emissions to satisfy its production needs, despite the fact that its per capita energy usage remains well below that of China or developed economies.

This agreement therefore makes clear once again the division existing between emerging economies and developed countries. The latter are reluctant to provide the financing that is needed to smooth the transition toward a more ecologically sustainable economy. Meanwhile the emerging economies wonder why limits to pollutions are now being imposed upon them by developed countries, as it is the developed countries that are primarily responsible for the increase in global temperature from the beginning of the industrial revolution. The United States, for example, is estimated to have been responsible for 25 percent of cumulative emissions worldwide since pre-industrial times, compared to 13 percent for China and only 3 percent for India.

What is positive about this new agreement? To begin with, having reached an agreement is an accomplishment in itself. Especially after the entrenchments between countries caused by the ongoing pandemic, it was not a given that a cooperative spirit would still be present internationally. Secondly, the agreement (however vaguely) does provide guidelines to implement the principles agreed upon six years ago in Paris. Third, it is important that most of the main actors of the global economy were at the table: the US, China, the EU, and India (among the 197 participating members), though Russia remained on the sidelines.

The US returned to the table at Glasgow after the pull-out decided on by Donald Trump, with Joe Biden's chief negotiator John Kerry being a heavyweight in US politics (Kerry was the Democratic presidential candidate in 2004, and the Secretary of State during Barack Obama's second term as president). Chinese leaders initially attended the conference only virtually, but its contributions to the negotiations were felt all the same. The EU, meanwhile, was clearly one of the most sensitive participants, in that it has been one of the main advocates of the fight against climate change, and in this respect the speech by the EU Commission Executive Vice President Timmermans was considered a final push towards reaching an agreed statement.

Between the US and the EU, there is clearly a different approach towards addressing China. The US is continuing to forge a hard line here, given the emerging Cold War II that is being waged between the two countries, as well as amid US allegations of China having started the global pandemic. The EU is softer on China mainly for commercial reasons, but also because the EU knows that one cannot constructively engage China on global warming if one continues to treat China as a strategic rival that needs to be contained.

It is hard to say whether the COP26 result was a glass half full, or half empty, achievement. The objectives that were agreed to are clearly unambitious, and the lack of urgency regarding emissions reduction continues to persist in many countries. On the other hand, any agreement that fosters international cooperation and multilateralism is good in these fractious times.

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Looking Ahead

The Week Ahead: Inflation Rate To Rise In EZ And the UK, Japan's GDP Expected To Contract

In the US, October's retail sales are expected to stay unchanged at 0.7% y-o-y.

In the EZ, the final reading of the inflation rate is expected to rise (*c*:4.1%, *p*:3.4%), with core inflation also rising (*c*:2.1%, *p*:1.9%).

In Japan, the GDP growth rate is expected to contract -0.2% q-o-q in Q3 from the 0.5% expansion recorded in Q2.

In the UK, the headline and core inflation rates are expected to rise y-o-y (headline: *p*: 3.1%, *c*: 3.9%; core: *p*: 2.9%, *c*: 3.1%).

The Quarter Ahead: COP26 Agreements Disregarded; Iranian Nuclear Deal On The Verge; Tensions Between Fed And China

US and China look to reset relations. US President Joe Biden and China's President Xi Jinping will hold a virtual meeting this week, in an intensified effort to smooth relations amid concerns about China's military activity near Taiwan, and its growing nuclear arsenal. The two leaders will discuss ways to responsibly manage the competition/rivalry between their countries.

COP26 emission agreements disregarded by four of the five largest vehicles makers. Carmakers from China and the US are absent from the list of signatories of the agreements made to eliminate new car emissions by 2040. For this deal to be effective, the world's major car manufacturing countries need to commit to a credible ecological transition.

In the US, President Biden is nearing a decision on his choice for Fed chairman, with observers inside and outside the administration viewing incumbent Jerome Powell as the front-runner for another term. An announcement is expected as early as this week. Biden has waited longer in making his selection than his two immediate predecessors, leaving a relatively narrow window for the Senate to confirm his choice before Powell's term expires in February.

Iranian new president, Ebrahim Raisi, overlooks the Vienna nuclear talks as a priority. While Iranian hardliners have repressed any possible expectation of progress on the nuclear deal, they are also concerned about a possible re-election of former US president Trump in 2024 and they have asked US President Biden a guarantee not to abandon the agreement.

EU retaliation against UK if it does not suspend part of the Brexit agreement for Northern Ireland. UK is soliciting a revision of the post-Brexit trade deal for Northern Ireland, which is still part of EU's customs union and single market. If UK acts unliterally by using the so-called "Article 16,2" the European Commission might have to take preemptive or retaliatory measures against the UK.

Fed warns that strains in the Chinese real estate sector "poses some risk to the US financial system". Distress in an economic system as important as China's and large business and local government debt might pose a serious risk to US and global economic growth. A disorderly unwinding of Evergrande's critical situation can be expected to affect global financial conditions and investor confidence.

Argentina is presumed not to honor to the IMF's debt repayment by March 2022. The Argentinian government is facing an economic crisis and needs a renewed deal with the IMF to unlock more funding. Private investors are already turning away from Buenos Aires stakes and the reputation of the Fund might be at stake.

Last Week's Review

Real Economy: Inflation Rose in US and China; UK GDP Slowed Down

In the US, October's inflation rate rose to 6.2% y-o-y (c: 5.8%; p: 5.4%), the highest reading since November 1990, with energy costs recording the biggest gain. Core-inflation surged 4.6% y-o-y (c: 4.3%; p: 4.0%), the largest increase since August 1991.

In the UK, in Q3 real GDP rose 6.6% y-o-y (c: 6.8%; p: 23.6%) following the easing of COVID-19 restrictions. The GDP is now 2.1% below where it was before the pandemic in Q4 2019.

In China, inflation accelerated from 0% to 0.7% m-o-m and from 0.7% to 1.5% y-o-y due to a multi-decade increase in raw materials prices, energy shortages and supply chain disruptions.

Financial Markets: Global Equities Unchanged; US Bond Yields Rise and German Bond Falls; Oil Commodity Prices Fall

Market drivers: *i)* pressures on supply chain and higher consumer demand; *ii)* hawkish Fed expectations for next year; *iii)* rising Covid-19 cases and shortages of goods, labor, and components.

Global equities remained unchanged w-o-w (MSCI ACWI, 0.00%, to 757). In the *US*, the S&P 500 ended lower (-0.3% w-o-w to 4,683) mainly driven by tech stocks. In the *EZ*, shares ended higher (Eurostoxx 50, +0.28% w-o-w, to 4,370), being up for six consecutive weeks. In *EMs*, equities augmented (MSCI EMs, +1.7%, to 1,264), as well as the Chinese stocks (Shanghai Comp., +1.4%, to 3,492). *Volatility* fell below averages (VIX S&P 500, -0.2 pts to 16.29, *52w range.:* 14.1-37.51).

Fixed Income: US 10-year bond yield gained (+0.014, to 1.570), while Germany 10-year bond yield dropped (-0.011, to -0.266). The EMTX 7-10 RT lost -0.61bp, to 282.28.

FX: w-o-w, the US Dollar Index gained (DXY, +0.9%, to 95.128; EUR/USD 1.0%, to 1.145). In *EMs*, currencies strengthened against the USD (MSCI EM Currency Index, +0.2% w-o-w, to 1,735).

Commodities: Oil prices fell (Brent, -0.7% w-o-w, to 82.2 USD/b), as the inflation-driven dollar rally continues. Gold Futures gained (+2.6% w-o-w, to 1,864 USD/Oz), mainly driven by inflation on US consumer prices.

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*