



R&R Weekly Column
By Brunello Rosa



While Looking at the “Finger” Of Putin We Should Not Forget About The “Moon” of Xi

The war in Ukraine is at a crucial point. The Russian army has found itself facing more resistance in its advancement than it had anticipated. It [apparently failed to conquer Kiev on its first attempt](#). Therefore, it has recently focused its efforts on securing the areas that would guarantee territorial continuity between Crimea and the Russian motherland. In this respect, [conquering Mariupol](#) has become the near-term tactical objective of the Russian army. Russian President Vladimir Putin needs to flag some victory at the May 9th parade that celebrates the “[Great Patriotic War](#),” i.e. WW2. In his initial plan, he might have wanted to celebrate the definite submission of the entire Ukraine by that date, but this objective is clearly unattainable at this stage.

Ukraine managed to stall the Russian invasion thanks to the substantial military aid it has received from NATO countries, which are providing weapons to its army and other supplies to the wider population to withstand the atrocities of the war. The US has already reportedly [provided USD 3bn in direct and indirect support](#), while the [UK’s navy seals are reportedly training the Ukrainian forces](#). In fact, for the time being, NATO countries have been providing Russian-made weapons to the Ukrainian forces. But in the future, Western-made artillery may need to be provided to the country under siege.

Two lines are clearly emerging within the Western alliance. European countries would be more inclined to press on the diplomatic channel, in an attempt to achieve a ceasefire sooner rather than later. The US, with the “[weaponised rhetoric](#)” of its president, is clearly not interested in making any sort of deal with Putin, which means a likely extension of the conflict. If [Sweden and Finland were to join NATO](#), as flagged as a possibility by the two countries’ respective prime ministers, that might imply an expansion of the conflict, if Russia were to retaliate in the Baltic as was recently threatened by Putin.

Putin’s Russia can withstand the sanctions of the Western alliance for longer only [if China will provide forms of direct and indirect support](#). There has been plenty of discussion about whether Putin is acting rationally or if he has already entered the typical end-phase of autocratic leaders, when they lose touch with reality and exhibit clear signs of “[delusion of omnipotence](#).” Let’s assume that Putin’s actions are still borderline rational. In any case, he will remain a very difficult ally to control for China’s President Xi Jinping. Xi can at most “manage” Putin and the implications of his actions, but will not ever be able to fully control him.

But here is the real question. How rational is it for China to rely on Russia as an ally in its Cold War II with the US? After all, the principal destination of China’s exports remains the US and the EU. In a fully balkanised world such as the one that is emerging as a result of Cold War II, economies like South East Asia and even India ([if it were to choose the Chinese camp](#), let alone an alliance with Russia) will not be able to replace the US and the EU as “consumers of last resort.” One therefore needs to wonder if Xi may also have entered the final phase of autocratic leaders, after the changes of the constitution that will allow him to remain in power indefinitely. These will take place just before [this autumn’s key party congress](#), where Xi is seeking to be elected as leader for the third time.

People from China report a further “closure of the system” that has taken place in the last few years, as testified by the suppression of liberties in Hong Kong, for example. An [old Chinese saying states](#): “When the sage points at the moon, the fool looks at the finger.” So perhaps when assessing the rationality of choices of leaders, one should not stop at looking at [Putin’s “finger”, when instead Xi’s “moon” should be watched](#). With one frightening certainty in mind: while the West can barely contain Russia without triggering WW3, it will be much harder to contain China in coming decades, given the technological, economic, military and now geo-strategic advancements it has made in the last few years.

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Looking Ahead

The Week Ahead: PMI Flash Estimates Expected To Fall In the US, EZ and the UK, While Remaining Above the 50 Mark

In the US, in April, PMI data for *i*) manufacturing is seen decreasing to 58.2 (*p*: 58.8); and *ii*) services is expected to remain unchanged at 58.0 (*p*: 58.0).

In the EZ, the final inflation data for March is expected to show that: *i*) the headline inflation rate has accelerated to 7.5% y-o-y (*p*: 5.9%) and core inflation rate has risen to 3.0% y-o-y (*p*: 2.7%). In April, according to preliminary estimates, **consumer confidence** is likely to deteriorate to -20 (*p*: 18.7). Preliminary data for April's **PMIs** are expected to show that manufacturing and services PMIs have fallen to 54.5 (*p*: 56.5) and 55.0 (*p*: 55.6) respectively. As a result, the Composite PMI is seen decreasing to 54.0 (*p*: 54.9).

In the UK, preliminary data for April's PMIs are expected to show that manufacturing and services PMIs have decreased to 54.0 (*p*: 55.2) and 58.0 (*p*: 62.6) respectively and therefore the composite PMI is seen decreasing to 54.0 (*p*: 54.9). In March, **retail sales** are expected to decrease to 2.8% y-o-y (*p*: 7.0%), while monthly retail sales are seen to remain muted at -0.3%.

The Quarter Ahead: Musk Makes Offer for Twitter; Chinese Cities In Lockdown; Russia Warns US To Stop Arming Ukraine

Elon Musk, the Tesla CEO, offered to buy social media platform Twitter for \$54.2 a share or about USD 43 bn. Musk already has 9% ownership in Twitter. In response, Twitter adopted a limited duration shareholder rights plan, also known as the 'poison pill', in order to avert a potential hostile takeover by diluting the stake of the entity eyeing the takeover. The Rights Plan will give the Board the necessary time to make informed decisions and take actions in the best interests of the shareholders. Describing it as a company with 'extraordinary potential', Musk laid down his intentions to relax the company's content moderation policies.

More Chinese cities impose COVID-19 lockdowns as cases increase. Shanghai reported a record-high number of positive cases. The spillover effects of lockdowns are already visible in the parts of the global supply chain. German auto parts and manufacturing giant Bosch halted production at two China plants due to new restrictions.

Russia warns US of 'unpredictable consequences' if it sends more arms to Ukraine. The US prepares an additional USD 800mn in military assistance, including helicopters, new artillery and armored gear, and drones.

Russia-Ukraine war updates. According to Ukrainian President Zelensky, up to 3,000 Ukrainian soldiers have been killed so far, whereas the UN reports that 4,633 civilian casualties have been officially recorded. At the same time, Russian strikes targeted a military factory in Kyiv. Ukraine says that its army hit Moskva, the flagship of Russia's Black Sea Fleet, causing it to sink.

Last Week's Review

Real Economy: Prices In The US And UK Climbed At Their Highest Rates In Decades; ECB Confirmed To End Net Asset Purchases in Q3

In the US, March's inflation data showed that: *i*) the headline inflation rate skyrocketed to 8.0% y-o-y (*c*: 8.4%; *p*: 7.9%); *ii*) monthly inflation rate rose to 1.2% as expected (*p*: 0.8%); and *iii*) core inflation surged to 6.5% y-o-y (*c*: 6.6%; *p*: 6.4%). March's retail sales increased by 6.9% y-o-y (*p*: 18.2%). Preliminary estimates for Michigan Consumer Sentiment for April jumped to 65.7 (*c*: 59; *p*: 59.4).

In the EZ, the ECB in its April meeting decided to keep its policy stance unchanged including: *i*) main refi rate at 0%; *ii*) the deposit rate at -0.5%; and *iii*) the marginal lending rate at 0.25%; the ECB also confirmed it will end its net asset purchases in Q3 2022.

In the UK, the unemployment rate edged down to 3.8% as expected (*p*: 3.9%). In March, inflation jumped to 7.0% y-o-y (*c*: 6.7%; *p*: 6.2%), and core inflation rose to 5.7% y-o-y (*c*: 5.4%; *p*: 5.2%). Monthly headline inflation accelerated to 1.1% (*c*: 0.7%; *p*: 0.8%).

Financial Markets: Major Equity Indices Fell; US 10y Yield Rose; Gold Price Up On Safe-Haven Demand

Market drivers: Investors' optimism was dented by: *i*) the anticipation of deceleration in earnings; *ii*) growing concerns about economic slowdown; and *iii*) persistent inflation.

Global Equities decreased *w-o-w* (MSCI ACWI, -1.73%, to 690). The US S&P 500 index dropped (-2.13% *w-o-w*, to 4,393). In the EZ, shares were down (Eurostoxx 50, -0.24% *w-o-w*, to 3,849) too. In EMs, equities declined (MSCI EMs, -1.33%, to 1,113). Volatility rose considerably to 23.63 (VIX S&P 500, 52w avg.: 21.3; 10y avg.: 17.9).

Fixed Income: *w-o-w*, 10-year US treasury yields rose (+12 bps to 2.83%), reaching its highest point since late 2018 as investors keep an eye on rising inflation. 2-year US treasury yields were down slightly (-0.1 bps to 2.46%). German 10-year yield was up compared to the last week (+13 bps, to 0.84%).

FX: *w-o-w*, the US Dollar Index recorded a modest gain on better retail sales (DXY, +0.55%, to 100.3; EUR/USD -0.62%, to 1.081). Euro weakens over the ECB's non-committal tone and no specification of a date for a rate hike. In EMs, currencies were muted (MSCI EM Currency Index, +0.0% *w-o-w*, to 1,736).

Commodities: *w-o-w*, oil prices were up (Brent, +8.22% to 111.23 USD/b), given large US crude inventories increase. *W-o-w*, gold prices rose (+1.38% to 1,972.5 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
DIJA	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

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