



R&R Weekly Column
By Brunello Rosa



China And Russia's New World Order

A bilateral meeting between China's foreign minister Wang Yi and his Russian counterpart Sergei Lavrov took place in Beijing last week. This was the first bilateral meeting between the two sides since Russia's invasion of Ukraine. [Speaking in a video released by its ministry](#), Lavrov said that Russia and China are working together to establish "a multipolar, just, democratic world order". According to Lavrov, the world was "living through a very serious stage in the history of international relations", but that China and Russia, together with their "sympathisers, will create such a new world order". [China's Yi reiterated that China and Russia will continue to coordinate their foreign policies](#), and that will continue to "speak with one voice" on the world stage.

These sentences are a clarification and a further confirmation of the [joint declaration](#) that Chinese President Xi Jinping and Russian President Vladimir Putin signed on February 4th, on the sidelines of the Winter Olympics in Beijing. [That statement also added](#) that the bonds between the two countries have "no limits" and that "there are no forbidden' areas of cooperation." That joint declaration opens with a statement that sends shivers down the spine, considering that is signed by two autocratic leaders: "The sides [i.e. China and Russia] share the understanding that democracy is a universal human value, rather than a privilege of a limited number of States, and that its promotion and protection is a common responsibility of the entire world community."

For those who are at loss here, this kind of language is not typically used in some second-tier commercial agreements, whereby the sides discuss "joint interests", "commercial opportunities", etc. This kind of language is used in game-changing declarations, aimed at profoundly modifying the status quo and opening a new phase in the world history. As we discussed [in our recent article by John Hulsman](#), China and Russia are paving the way for the creation of a new, polarised world, in which the "Eastern" hemisphere, geographically dominated by Russia and China, will oppose the traditional "Western" alliance, comprising the Anglosphere (US, UK, Canada, Australia, New Zealand), the EU and Japan. In a previous column, we discussed how this is already having an impact [on the international payment systems](#), with China's CIPS gaining ground versus the Western-dominated SWIFT.

In this new polarised war, it is yet to be determined what side India wants to stay on. On the one hand, the US has forged the QUAD alongside India, Australia and Japan, an association of democracies in the Indo-Pacific area, which is widely considered an attempt to contain the growth of China's influence in South-East Asia. The QUAD was revitalised at the time of the conflict [between China and India in the Himalayas](#), when the tensions between the two countries reached a "local maximum."

More recently, though, there has been a rapprochement between Russia and India, even if Russia is siding with China. India is a very large and populous country, and is one of the few remaining democracies in the region, even if Modi has adopted nationalistic policies with some autocratic traits. So, knowing which side it will be on in the future it will be important.

Nearby in the Middle East, numerous countries, especially those that are oil exporters within OPEC, have been very cautious and reluctant in openly condemning Russian's invasion of Ukraine. They might have refrained from doing so for economic, or geopolitical, reasons. But we should never forget that there also exists a view of the world that does not coincide with that which is held by the West or the US. And considering this reality will become essential in the multi-polar world we are about to live in for the next few years.

Our Recent Publications

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- ✿ [Flash Review: A Less "Hawkish" BOE Continues Its Policy Normalisation Process](#), by Brunello Rosa and Nato Balavadze, 17 March 2022
- ✿ [GEOPOLITICAL CORNER: Putin's Mistakes Give Birth To a Polarised World](#), by John C. Hulsman, 22 March 2022

Looking Ahead

The Week Ahead: US PMI to Accelerate In March, While RBA Leaves Rates Unchanged.

In the US, in March, the final reading of S&P Global Composite PMI is expected to accelerate from 55.9 to 58.5.

In Australia, RBA is expected to keep its policy rates unchanged at 0.1%.

The Quarter Ahead: Moscow's Gas Ultimatum; Biden Orders the Release Of Oil Reserves; Global Factory Activity Slows

Russia's President Putin issued a decree confronting Europe with a gas ultimatum, as Russia decided to shift payments for its supplies to rubles for 'unfriendly countries'. Moscow threatens to stop gas supplies if the countries do not 'open ruble accounts in Russian Banks'. It is seen as an attempt to boost the currency, which has been hit by sanctions from the West. Germany, one of the biggest consumers of Russian gas, rejects being 'blackmailed' over ruble payments. Italy's Draghi said that existing contracts would remain in force and Europeans would continue to pay in euros or dollars.

Russia-Ukraine talks are set to continue. Kyiv's chief negotiator, Mykhailo Podolyak, suggests that Moscow was considering Ukraine's proposals. Ukraine offered neutrality in exchange for security guarantees. On the other hand, evacuations are still 'extremely difficult'. Red Cross officials sent a convoy to evacuate civilians trapped in a dire humanitarian crisis in the besieged city of Mariupol.

Biden announced a historic oil reserve release in an attempt to reduce gas prices. The release would amount to 180 mln barrels of oil over six month, marking the largest release since the strategic reserve was created in 1974. Record-breaking oil prices is now a political issue in the US and around the globe, especially ahead of the US mid-term elections.

Global factory activity slows down, clouded by downside risks. Firstly, Russia's invasion of Ukraine tightened supply chains' bottlenecks. Additionally, temporary lockdowns in parts of China prompted new concerns, contributing to raw material shortages.

Last Week's Review

Real Economy: US Strong NFP print, while the Fed's Favorite Measure Of Inflation Rises; EZ Inflation Hits Record Highs.

In the US, Q4 GDP expanded by 6.9% q-o-q (c: 2.3%; p: 7.1%). In February, PCE and core PCE rose to 6.4% y-o-y (c: 6.3%; p: 5.3%), and 5.4% y-o-y (c: 5.2%; p: 4.6%) respectively. In March, unemployment rate decreased to 3.6% (c: 3.7%; p: 3.8%), while NFP were up by 431K (c: 490K; p: 750K).

In the EZ, March annual inflation surged to 7.5% (c: 6.6%; p: 5.9%), while monthly inflation rose to 2.5% (p: 0.9%). Core inflation advanced to 3.0% (c: 3.1%; p: 2.7%). Among the largest EZ economies: i) in Germany, inflation hit 40-year high to 7.3% y-o-y (c: 6.3%; p: 5.1%); ii) in France, inflation accelerated to 4.5% (c: 4.3%; p: 3.6%); and iii) in Italy, inflation surged to 6.7% (c: 6.4%; p: 5.7%).

Still in the EZ, unemployment edged down to 6.8% (c: 6.7%; p: 6.9%). Consumer confidence decreased to -18.7 (c: -18.7; p: -8.8).

In the UK, final estimates for Q4 GDP showed a rise by 1.3% q-o-q (c: 1.0%; p: 0.9%) and 6.6% y-o-y (c: 6.5%; p: 6.9%).

Financial Markets: US Yield Curve Inverts In Recession Sign; US Stocks Close Positive at the End of A Bad Quarter; Oil Price Down

Market drivers: Investors pay close attention to developments in Ukraine. Yields for short-term US Treasury yields were higher than yields for long-term ones, briefly inverting the curve, as investors factor in a more pessimistic outlook. Even so, S&P 500 and NASDAQ both rose modestly, as it appears stock investors shrugged off a recession sign. As a result, **Global Equities** increased w-o-w (MSCI ACWI, +0.28%, to 712). The US S&P 500 Index rose (+0.1% w-o-w, to 4,545), while optimism about a possible peace deal between Ukraine and Russia wanes. It was the weakest quarter for US stocks since Q1-2020. In the EZ, shares rose (Eurostoxx 50, +1.3% w-o-w, to 3,919). In EMs, equities rose (MSCI EMs, +1.5%, to 1,142). Volatility rose to 22.73 (VIX S&P 500, 52w avg.: 21.3; 10y avg.: 17.9).

Fixed Income: w-o-w, 10-year US treasury yields decreased (-8.2 bps to 2.41%), while 2-year rose (+10 bps to 2.38%). During the week, there was a brief yield curve inversion with the yield of a 2-year note higher than the 10-year yield. This flashed a warning sign to investors that a recession may be coming. German 10-year bund yield rose compared to last week (+1 bps, to 0.58%).

FX: w-o-w, the US Dollar Index decreased (DXY, -0.3%, to 98.48; EUR/USD +0.7%, to 1.106). Although the dollar is still down compared to last week, the currency rebounded versus major peers on Friday ahead of a key U.S. jobs report. High inflation in the Eurozone might signal a rate hike, which in turn supports the euro. In EMs, currencies rose against the USD (MSCI EM Currency Index, +0.9% w-o-w, to 1,744).

Commodities: w-o-w, oil prices were down (Brent, -6.73% to 104.90 USD/b), following Biden's announcement on a record-breaking release of the Strategic Petroleum Reserve. w-o-w, gold prices rose (+1.08% to 1,933.1 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
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