



R&R Weekly Column
By Brunello Rosa



The World's Geopolitical Landscape Is In Flux

The visit to Taiwan by US Speaker of the House Nancy Pelosi on August 2nd, and the reaction to that visit by the Chinese authorities, were widely reported upon [by all media outlets](#). Pelosi had programmed her visit for April 2022, the first trip by a senior US lawmaker since House Speaker Newt Gingrich's visit in 1997; but her trip was cancelled due to Covid-19. Already at that time, the [Chinese Ministry of Foreign Affairs](#) said that the visit was a "[malicious provocation](#)" and that the People's Republic of China (PRC) would "take strong and resolute measures to thwart any interference by external forces".

In effect, the reaction by the Chinese authorities was resolute. On 1st August, the PRC [announced](#) a military exercise opposite Taiwan. A military build-up was also [seen](#) in cities and on beaches directly opposite Taiwan. The Chinese military has also continuously sent fighter aircraft and naval ships over the median line and into the Taiwanese Air Defence Identification Zone (ADIZ). These drills have also been planned for areas [east of Taiwan](#). During Pelosi's stay, various Taiwanese government sites were hit by [DDoS attacks](#), bringing down the Office of the President's website, the Ministry of Defence website as well as the website of the Taoyuan International Airport. Since the Russian invasion of Ukraine, many commentators said that China was keen to establish a new, [privileged relationship](#) with Putin's country because this invasion would legitimise, at some point, the Chinese invasion of Taiwan. But things are a bit more complicated than this.

First, [already in July 2021](#), six months before Russia's invasion of Ukraine, we said that China would aim at taking back the "rebellious province" of Taiwan over the next 5 to 10 years, initially with a series of destabilising actions and provocations. The Chinese government will likely use a tactic not dissimilar from the one it adopted to take back control of Hong Kong.

Secondly, we said that China [would not make such a move this year](#), as many had expected, simply because Chinese President Xi Jinping's energy is devoted to being re-elected as party leader for the third time (effectively paving the way to a lifelong tenure as Chinese leader, irrespective of the official title) during the upcoming 20th Congress of the Chinese Communist Party (CCP). A war with Taiwan, which may have [unpredictable consequences](#), would likely cause more harm than good to Xi's hopes of re-election, paving the way for a victory of the opposing factions within the CCP, and in particular the faction led by Prime Minister Li Keqiang.

Third, and perhaps most importantly, when geopolitics is in flux, unexpected events may develop which make "mechanical inferences" less obvious than they would seem to be, *prima facie*. For example, recently Putin – the arch-enemy of the enlarging NATO alliance – and Erdogan, the President of Turkey, a long-time NATO member, [decided to deepen the economic ties between their respective countries](#). Initially Erdogan established himself as the mediator between Russia and the West to free the grain stuck in Ukrainian ports (chiefly Odesa) besieged by the Russian army.

But during the meetings, which led to a partial unfreezing of those crops, badly needed to avoid famine in many African countries, Erdogan and Putin clearly found time to speak about their own respective interests. Although not many details were released of the intended increased cooperation, Western countries fear that Russia may find a way to circumvent the West's sanctions, and that Turkey may be less aligned with the rest of the alliance in its opposition to Russia.

This example shows how the war in Ukraine, [which has polarised the world](#), has set in motion the entire geopolitical landscape, and that – in any case – [a new world order is likely to emerge in coming years](#).

Our Recent Publications

🌟 [Fed's Reality Check Will Be In Autumn](#), by Filippo Ramigni, 9 August 2022

🌟 [Flash Review: BOE Raise Rates, but Now Needs to Strike a Balance Between Rising Inflation and Upcoming Recession](#), by Brunello Rosa and Nato Balavadze, 4 August 2022



Looking Ahead

The Week Ahead: EZ And UK Headline And Core Inflation To Rise; EZ QoQ GDP To Advance; UK Retail Sales To Shrink

In the US, in July, IP is expected to recover by 0.3% m-o-m (p : -0.2%). In July, retail sales are seen decelerating to 0.1% m-o-m (p : 1.0%), whereas monthly retail sales ex-autos are likely to stagnate (p : 1.0%)

In the EZ, in Q2, according to second estimate, GDP is expected to rise by 0.7% q-o-q (p : 0.5%) and decelerate to 4.0% y-o-y (p : 5.4%). In July, inflation is likely to surge to 8.9% y-o-y (p : 8.6%) and cool off to 0.1% m-o-m (p : 0.8%). Core inflation is also likely to rise to 4.0% y-o-y (p : 3.7%).

In the UK, the unemployment rate is likely to stay unchanged at 3.8% in June. Headline and core inflation are expected to surge to 9.8% y-o-y (p : 9.4%) and 5.9% y-o-y (p : 5.8%). However, monthly inflation is seen decreasing 0.4% (p : 0.8%). July's retail sales are seen shrinking 3.3% y-o-y (p : -5.8%) and 0.2% m-o-m (p : -0.1%). In August, Consumer Confidence is expected to contract by -42 (p : -41).

The Quarter Ahead: FBI Executed A Search Warrant At Trump's House; Musk Sold Twitter Shares; Gas Prices Fell

Trump's Florida home was searched by the FBI. The search is reportedly connected to an investigation looking into White House records from the White House that Trump took with him. In January 2022, the National Archives and Records Administration discovered that Trump removed 15 boxes of White House documents and retrieved those documents from Mar-a-Lago, personal residence of Trump in Florida. In April, the DOJ started an investigation at the request of the National Archives. In June, DOJ and FBI investigators met with Trump attorneys to enquire about the handling of classified material. The investigation escalated in August, when the FBI executed a search warrant at Mar-a-Lago. Trump invoked the Fifth Amendment.

Elon Musk sold \$7 bn in Tesla stocks for Twitter Deal. As Musk said, he might use these funds to finance a potential deal in case he loses a legal battle with Twitter. Social Media Platform sued Musk to force him to complete the transaction worth \$44 bn.

US gasoline prices fell below \$4 per gallon for the first time since March. The gas prices decreased as oil prices keep falling amid fears over an upcoming recession.

Last Week's Review

Real Economy: In US Headline Inflation Cooled Off, Whereas Core Stayed Unchanged; UK QoQ GDP Shrank

In the US, in July, inflation cooled off to 8.5% y-o-y (c : 8.7%; p : 9.1%) and 0.0% m-o-m (c : 0.2%; p : 1.3%). Core inflation stayed unchanged at 5.9% y-o-y (c : 6.1%). July's PPI decelerated to 9.8% y-o-y (c : 10.4%; p : 11.3%). According to a preliminary estimate, Michigan Consumer increased to 55.1 (c : 52.5; p : 51.5).

In the EZ, in June IP rose by 2.4% y-o-y (c : 0.8%; p : 1.6%). In the largest EZ economies final data showed that annual harmonized inflation rate: *i*) surged in Germany to 8.5% (c : 8.5%; p : 8.2%); *ii*) decreased slightly in Italy to 8.4% (c : 8.4%; p : 8.5%); and *iii*) increased in France to 6.8% (c : 6.8%; p : 6.5%).

In the UK, in Q2, preliminary estimates show that: *i*) GDP shrank by 0.1% q-o-q (c : -0.2%; p : 0.8%); and *ii*) the economy decelerated to 2.9% y-o-y (c : 2.8%; p : 8.7%). June's IP increased by 2.4% y-o-y (c : 1.6%; p : 1.4%).

In China, inflation rose to 2.7% y-o-y (c : 2.9%; p : 2.5%) and 0.5% m-o-m (c : 0.5%; p : 0.0%)

Financial Markets: Stocks Rose; Yields Rose Modestly; Dollar Is Down, While Oil Prices Are Up; Gold Prices Also Rose

Market Drivers: Investors reacted positively to cooler inflation. As a result, S&P 500 rose, clinching its longest weekly winning streak since November 2021. In Europe, shares also increased as the fears of more aggressive monetary policy eased.

Global Equities: Increased w-o-w (MSCI ACWI, +2.6%, to 657.6). The US S&P 500 index increased (+3.4% w-o-w, to 4,280.2). In the EZ, share prices were up (Eurostoxx 50, +0.5% w-o-w, to 3,776.8). In EMs, equity prices increased (MSCI EMs, +1.5%, to 1016.8). Volatility rose to 23.6 (VIX S&P 500, 52w avg.: 23.6; 10y avg.: 18.2).

Fixed Income: w-o-w, 10-year US treasury yields rose (+9 bps to 2.84%). The 2-year US Treasury yields increased too (+4 bps to 3.25%). The German 10-year bund yield rose (+8 bps to 0.98%).

FX: w-o-w, the US Dollar Index was down (DXY, -0.7%, to 105.7; EUR/USD +0.6%, to 1.03). In EMs, currencies rose (MSCI EM Currency Index, +0.5% w-o-w, to 1,668.0).

Commodities: w-o-w, oil prices rose (Brent, +3.2% to 98 USD/b). US petrol prices fall below \$4 for the first time since March, as CPI inflation slowed down more than expected. Gold prices increased w-o-w (+0.7% to 1,818.4 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