Rosa & Roubini
ASSOCIATES

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R&R Weekly Column
By Brunello Rosa

Nuclear Threats And Oil Production Cuts Show That Geopolitics Is Still Central

This past week has been another very eventful one, from a geopolitical perspective. First, besides the ongoing cyberwarfare between the two sides, which we discussed in our recent analysis, the threat of a possible nuclear escalation in the Russia-Ukraine conflict has become even more vivid. Initially, Russian President Vladimir Putin promoted referenda in four Ukrainian provinces which he claims are under control of the Russian army: Donetsk, Luhansk, Kherson and Zaporizhzhia. Then he ratified the results in favour of the annexation of these provinces, which the international community is not recognizing.

This was the crucial step to saying that any attack on those regions would imply a direct attack on Russia. According to the Russian doctrine for the use of nuclear weapon, any threat to the security of the Russian territory - not necessarily an actual attack, but rather any threat considered "imminent" - would justify the use of the nuclear arsenal.

There is a lot of talk about the use of "tactical" nuclear weapons, which have a smaller radius of action. Commentators and the wider public opinion are even starting to consider the use of those weapons similar to that of conventional artillery. But they are not. Their use would still represent the beginning of a nuclear holocaust, not too dissimilar to what happened in the Japanese cities of Hiroshima and Nagasaki at the end of WWII. Hiroshima and Nagasaki have been in fact quoted many times by the Russian government in their rhetoric, to justify the use of Russia's nuclear arsenal. This is the reason why US President Biden spoke about a potential Armageddon that would derive from such a possible move from the Russians.

We need to hope that the nuclear escalation does not progress further, as it is unclear how it would end. The bombing of the Kerch bridge that connects the Russian mainland to Crimea meanwhile might represent another starting point for further escalation, which is the reason now nobody wants to claim to be the author of that attack.

Also taking place this past week, the OPEC+ cartel decided to cut oil production by around 2m barrels a day, in order to support falling oil prices and keep the price close to 100$pb. The move clearly benefits Russia at this difficult juncture in its war with Ukraine, and it could have never been adopted without the decisive input of Saudi Arabia, the major stakeholder of OPEC.

This confirms what we discussed in our column of a few weeks ago: the emergence of a new bloc of countries, established around the BRICS gathering and now including Saudi Arabia as well and that is in direct competition with the G7, which is centred around the US. In one of our recent papers, we discussed how Saudi Arabia was re-gaining centre stage in the more multipolar world that is currently emerging. This is the reason why both President Biden and US Treasury Secretary Yellen complained about the cut to oil production inspired by Saudi Arabia, which risks tipping the global economy into a recession. And all this while the EU struggles to find a unified position around the proposal of a price cap for oil and gas imports from Russia.

These are just some of the examples that show that geopolitics remains at the centre stage in world affairs, and is one of the main determinants of key macro-financial variables, including oil prices (a crucial input for headline inflation) and GDP.

Our Recent Publications

- *Balancing Economic Promotion and Cultural Challenges in the GCC*, *by Gulf State Analytics, 6 October 2022*
- *Ukraine-Russia Conflict: How Cyberwarfare Is Used Alongside Conventional Weapons*, *by London Politica, 5 October 2022*
- *As the Fed Tightens Monetary Policy, It Needs to Balance Price Stability and Financial Stability*, *by Filippo Ramigni, 4 October 2022*
- *Saudi Arabia Re-Gains Centre Stage in a More Multipolar World*, *by Giorgio Cafiero, 29 September 2022*

Looking Ahead

The Week Ahead: US Headline Inflation To Fall, While Core Is Expected To Rise; UK Unemployment To Remain Unchanged

In the US, in September, the headline inflation rate is expected to decrease to 8.1% y-o-y (*p:* 8.3%) and core inflation is likely to rise to 6.5% y-o-y (*p:* 6.3%). Monthly inflation is seen increasing to 0.2% (*p:* 0.1%). In October, according to a preliminary estimate, consumer sentiment is expected to increase slightly to 58.9 (*p:* 58.6).

In the EZ, August's IP is likely to recover to 1.0% y-o-y (*p:* -2.4%) and 0.5% m-o-m (*p:* -2.3%).

In the UK, in August, unemployment is expected to be unchanged at 3.6%. August's IP is likely to shrink by -0.2% m-o-m (*p:* -0.3%).

The Quarter Ahead: Credit Suisse Pays Down Debt; Biden Warns Of Nuclear Risk;Ukrainian Forces Advance;Crimean Bridge Collapses

Credit Suisse will buy back $3 bn in debt. The move came after Credit Suisse's stocks plunged by 40% year to date and bets against its debt rose substantially. The bank also announced the sale of its famous Savoy Hotel in Zurich as credit fears persist. Credit Suisse overhauled its management team after the bank lost $5 bn from the collapse of investment firm Archegos in March 2021. The troubled bank started a massive strategic review under the new CEO, after which it will leave its investment banking business.

Biden said the nuclear threat is the worst in 60 years since the Cuban missile crisis. However, US National Security Adviser Sullivan said that the US had not detected any signs of preparations for a nuclear strike. Meanwhile, Putin signed a decree reporting that Zaporizhzhia nuclear plant belongs to Russia.

Ukraine takes back dozens of towns annexed by Russia. Ukrainian forces recaptured important areas of southern Kherson, after Russia announced last week that it *'annexed'* four regions of Ukraine.

Kerch bridge linking Russia to Crimea was damaged in an explosion. Putin ordered a *'government commission'* to examine the Kerch Bridge explosion in Crimea. The source of the explosion is unclear. Mykhailo Podolyak, an advisor to Zelenskyy, reported that the damage was only *'the beginning'.*

Nobel Prize has been awarded to Belarusian activist Ales Bialiatski and Ukrainian and Russian human rights organizations. Organizations include Memorial founded in Russia in 1989 and the Center for Civil Liberties founded in Ukraine in 2007.

Last Week's Review

Real Economy: US Unemployment Fell And NFPs Decreased; Composite PMIs Decreased In EZ And UK, While Rose In the US

In the US, September's unemployment edged down to 3.5% (*c:* 3.7%; *p:* 3.7%) and NFPs decreased to 263K (*c:* 250K; *p:* 315K). In September, manufacturing PMI increased to 52 (*c:* 51.8; *p:* 51.5). Services and Composite PMIs rose to 49.4 (*c:* 49.2; *p:* 43.7) and to 49.5 (*c*: 49.3; *p:* 44.6) respectively.

In the EZ, in September, manufacturing and services PMIs decreased to 48.4 (*c:* 48.5; *p:* 49.6) and to 48.8 (*c:* 48.9; p: 49.8). Composite PMI fell to 48.1 (*c:* 48.2; *p:* 48.9). August's retail sales are likely to shrink by -0.3% m-o-m (*c:* -0.4%; *p:* 0.3%) and -2.0% y-o-y (*c:* -1.2%; *p:* -0.%).

In the UK, in September, manufacturing PMI increased to 48.4 (*c:* 48.5; *p:* 47.3), whereas services PMI fell to 50 (*c:* 49.2; *p:* 50.9). Composite PMI decreased to 49.1 (*c:* 48.4; *p:* 49.6).

Financial Markets: Stocks Were Up And Yields Rose; Dollar, Oil and Gold Prices Are All Up

Market Drivers: Following OPEC+'s decision to slash its production targets, oil prices surged and led to outsized gains in the S&P 500. Investors also hoped that the Central Banks would begin to pause their hawkish stances, and as a result of which, equities rose.

Global Equities: Increased *w-o-w* (MSCI ACWI, +1.7%, to 563.00). The US S&P 500 index increased (+1.5% w-o-w, to 3,639.66). In the EZ, share prices were up (Eurostoxx 50, +1.7% w-o-w, to 3,375.46). In EMs, equity prices rose (MSCI EMs, +2.5%, to 897.74). Volatility rose significantly to 31.6 (VIX S&P 500, 52w avg.: 25.0; 10y avg.: 18.2).

Fixed Income: *w-o-w*, the 10-year US treasury yields rose (+6 bps to 3.89%). The 2-year US Treasury yields rose as well (+4 bps to 4.31%). The German 10-year bund yield also rose (+8 bps to 2.19%).

FX: *w-o-w,* the US Dollar Index was up (DXY, +0.5%, to 112.64; EUR/USD -0.6%, to 0.98). In EMs, currencies rose (MSCI EM Currency Index, +0.3% w-o-w, to 1,596.65).

Commodities: *w-o-w,* oil prices rose (Brent, +11.9% to 98.45 USD/b). Gold prices increased w-o-w (+1.8% to 1,701.80 USD/Oz).

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The picture in the front page comes from this website

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*

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